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IN
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—:o:—

Sixty Years of Indian Finance.

Indian Currency, Exchange, and Banking.

Governance of India.

Guide to the Study of Economics.

TO

G.

IN MEMORY OF A MISUNDERSTANDING.

" *Tout Casse, Tout Lasse, Tout Passe*".

OF INDUSTRIES
23 JAN 1929

PREFACE

THIS work was originally intended to be a sort of a companion volume to the *Sixty Years of Indian Finance*. But on reflection, it was found impossible to combine in the scope of such a volume the historical with the analytical treatment of the trade of India and its accessories. An economic history of India, from the earliest times, is as badly needed as it would be a great piece of research when produced. For lack of the necessary library facilities, I have had to abandon, at least for the present, a historical survey of the economic development of India, after adding an Introduction to this work, content only with pointing out, without exploring, the infinite possibilities for economic research. And even in the narrower sphere of recent years, space considerations have precluded that emphasis on the historical growth and continuity, which is a feature of the work on Finance, though even in that case some critics have held that it would have been better if I had separated the historical from the analytical study of the Indian financial system into two separate volumes. Accordingly, in this work, more stress is laid on the analysis of the present day trade and its accessories, though the historical side is not entirely ignored, in the hope that the volume may be of service to all classes of readers interested in the study of economic problems of this country.

The title of the work needs an explanation. It is not merely an essay in alliteration. Trade conditions cannot fairly or comprehensively be considered without their indispensable aids of transport facilities and tariff regulations, which play so great a part in the development of modern international commerce. The economics of transport, besides, seem to me to be very generally ignored in the Indian University curricula, and *a fortiori* much less understood by the business world. The Railways have, indeed, been fairly well studied in admirable monographs, like those of Mr. Ghose or Mr. Tiwari; but, I think, the Railways have attracted public attention rather in their financial aspect than in their real utility to the industry and commerce of the country. And, in any case, the economics and possibilities of Road and River communication, as well as questions of Ocean transport, have attracted very little scientific inquiry, except, perhaps, in a specific grievance like the Deferred Rebate System. It would be presumptuous and untrue to say that the present volume—or, that section of it which deals with transport problems—is a treatise on Transport Economics. All it claims is that it includes an elementary survey of the general economics of all recognised commercial means of transport, with, of course, a special reference to Indian conditions and problems. I would be more than satisfied if it helps to attract attention to the need for a closer study of transport problems in India comprehensively. In the section relating to Tariffs, a brief examination of the general controversy between Free Trade *versus* Protection is followed by a more detailed consideration of conditions in India, with a specific scheme for protectionist legislation in India to give point to the criticism or analysis preceding. The most important adjunct to commerce—currency and banking-is omitted from this volume, as much because of the existence of a number of excellent works on the subject, beginning with that of Mr. J. M. Keynes, as also because the present writer has recorded the results of his study in that domain in a separate work: *Indian Currency, Exchange and Banking*.

The difficulties of such publications as these to persons not able to command the services of a Government Press or an unlimited purse are often not understood at all by the reading public, such as there is. The study and writing of it is the least of the list—or perhaps hardly a difficulty at all to those who have a love for their subject. But, as in India the publishing business is still unknown, considerations of cost would alone prove prohibitive to many a keen student who cannot afford to take the risk. With the exception, perhaps, of the University of Calcutta, no University seems to have perceived the need for a press of its own to facilitate the publication of works of research that cannot possibly sell like "hot cakes". One would have thought a University Press could have been easily made a business proposition. There is a welcome departure in the constitution of Universities in India with the teaching side; but the new teaching Universities have yet to evolve the whole gamut from their relations to their professoriat to the legitimate inter-change of inter-university courtesies. I mention this difficulty in order the more fully to acknowledge my gratitude to the University of Bombay, who have afforded me valuable assistance. But the lack of good publishing houses makes a writer's difficulties multiply, not only in regard to the money cost of the publications, but much more so in the real effort of proof-reading and all the thousands and one troubles to get a book ready for the public. I mention these difficulties not, indeed, to excuse the errors and defects, that still remain in the work; and of which no one can be more conscious than the writer himself; but only to urge before a discerning reader an extenuating circumstance.

I have been accused by some critics of an undue warmth of expression in other works of mine on cognate subjects. I might reply, in the words of Sir J. Douie, reviewing the *Sixty Years of Indian Finance* in the Economic Journal: "To expect an Indian economist, with pronounced nationalist views, to discuss the questions with which the book deals with complete freedom from bias would, at the present time, be futile. ....It may be said in passing that such an intemperate attack on the present Indian Civil Service, as is to be found on pp.106-108, coming, as it does, from a very intelligent and well-educated man, is a deplorable example of the growth of racial feeling in India and of evil augury for the future." I might also reply by pointing to works, accepted by my critics as excellent pieces of research, as exhibiting the worst features they take exception to in my work. I might even reply by the easy retort that the warmth of my expressions ought to measure the strength of my convictions. I prefer, however, to say that the charge, if really deserved, would certainly be a blemish in a scientific work of research, and to add that in this work I have tried to avoid the accusation as far as it lay in me. If, however, the mere statement of unpalatable facts makes a critic repeat the charge, it would be useless to defend oneself against such criticism.

This work practically completes the series of special economic problems of India the present writer had set himself to investigate into. A special study of the Indian agrarian problems still remains to be achieved, quite apart from the great need of a competent research work on a comprehensive economic history of India. The Department of Economics of the Bombay University has in hand schemes of studies which might obviate this want in course of time. But mention is made of this point here because of the growing conviction in the mind of the present writer of a much greater need which is not generally perceived at all. We need to revise some of our very fundamentals in Economics. If a vast amount of misunderstanding and recrimination are to be avoided, under conditions like those prevailing in India, it would be necessary to define as clearly as may be the goal in view. What are we all striving for? And, to begin with, it is necessary to recast the theory of values, so as to make a harmony-not a maze-of ethical, economic, and social considerations. In our accepted theories on the subject, we have, to say the least, not reconciled these seemingly incompatible requirements; and the present writer for one would fain devote himself to a closer study of social philosophy before taking up any specific problem of the moment, however urgent it may seem, in order to attempt a comprehensive theory of values.

I have tried to record acknowledgments of my obligation in the text wherever necessary. It would be invidious to select in this place even a few for special mention. I must nevertheless record my obligation to Mr. S. P. Kabadi of the Bombay Students' Brotherhood for the valuable aid he has rendered me in proof-reading and in the compilation of the Index.

15th June 1923.
Department of Economics,
University of Bombay.

K. T. S.

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TRADE, TARIFFS & TRANSPORT IN INDIA.

PART I.

INTRODUCTORY.

A

Whenever it comes to be properly studied and written, the history of the Trade of India will prove as fascinating as it is bound to be an instructive chapter in the annals of mankind. Popular tradition in India, as evidenced by folklore in almost every province, carries the story of Indian commerce right back into the earliest dawn of human history. Certainly, the Vedas, whose origin, according to the latest compilation of ancient Indian History, is dated somewhere about 1200 B. C.* contain passages which suggest a very considerable growth of trade. The authority already quoted seems to be strongly oblivious of the significance of these passages, when it says:—

> "But there is still no hint of sea-borne commerce or of more than river navigation."†

Without having recourse to the specific mentions in the Vedas to sea-going vessels, we may point out that the list of occupations given on the very page from which the above remark is quoted clearly shows the development of the sea-borne commerce of India, since a good many of these crafts were destined to meet the needs principally of foreign commerce. Says Prof. Keith in the Cambridge History of India, Ch. V:—

> "We hear of hunters, of several classes of fishermen, of attendants on cattle, of fire rangers, of ploughers, of charioteers, of several classes of attendants, of *makers of jewels*, basket makers, washermen, rope-makers, *dyers*, chariot-makers, barbers, *weavers*, slaughterers, workers in gold, cooks, sellers of dried fish, makers of bows, gatherers of wood, door-keepers, *smelters*, footmen, messengers, carvers and seasoners of food, potters, smiths and so forth. Professional acrobats are recorded and players on drums and flutes. Besides the *boatman* appear the oarman and the poleman."‡

From the earliest available records of Indian foreign trade, the most frequently occurring articles of Indian export are cloth, dyes, precious stones and metal-work; and a list of occupations, which includes jewel-makers, dyers, weavers, smelters and smiths cannot possibly be held to have been properly read, if it is made to yield the conclusion that "there is still no hint of sea-borne commerce." The evolution of the boatman may have been occasioned by the needs of river-fishing; but the oarsman and the polesman, taken along with the woodgatherer and the boatman, and viewed in the proper perspective with the naval regulations of the Mauryan period* as laid out in the most practical and authoritative hand-book on public administration about 300 B. C., it cannot but suggest the growth of foreign sea-borne commerce already in the Vedic period of over 3000 years ago. The phenomenon of exchange need not, indeed, be identical with foreign sea-borne commerce, and particularly not in a country of the vast size of India. India is obviously a geographical unit, which every discerning statesman, from the Mauryas and the Guptas to the Mughals and the British, have tried to weld into a political as well as an economic unit. But though in considering India as a single country, the arresting features of its foreign commerce would be found only when we think of the sea-borne trade, it does not from this at all follow that the transfrontier and inter-provincial trade of India was either non-existing or negligible. In an interesting and erudite contribution to the Journal of the Royal Asiatic Society, on the "*Early Commerce of Babylon with India*"† Mr. J. Kennedy, I. C. S. says:—

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* The *Cambridge History of India*, Vol. 1, p. 110 et seq.

† Ibid p. 136.

‡ Ibid p. 166.

> "For a trade between Western Asia and India three routes are possible. The first climbs up the precipitous and zigzag passes of the Zagros range which the Greeks called "ladders" into the treeless regions of Persia. This route was barred for centuries by the inveterate hostility of the mountaineers, and it did not become practicable until the "Great King" reduced the Kurdish highlanders and the lowland Semites to an equal vassalage. The second route traverses the mountains of Armenia to the Caspian and the Oxus, and descends into India by the passes of the Hindoo Kush. *Articles of commerce doubtless passed along this way from early times;* but the trade was of little importance, fitful, intermittent and passing through many intermediate hands, until the Parthian domination forced trade into this channel. Lastly, there is the sea; and as this alone afforded a means of direct and constant intercourse, the question is narrowed to a single issue."

As the main thesis which Mr. Kennedy sets himself to establish in this article is that the sea-borne trade of India with the Western Asiatic countries did not begin till about 700 B. C., we must necessarily infer him to imply, in the above passage, that the transfrontier land-trade of India must have started much earlier. We shall have more to say of the main proposition of Mr. Kennedy anon; here it is enough to repeat that the origin of exchange, denoting a society in a very advanced stage of economic development, must have long preceded, as between tribes and tribes of the same people, as between provinces and provinces of the same country, the evolution of international commerc. In India exchange, inter-tribal, or rather inter-provincial, commerce must be held to have arisen before the growth of the trans-frontier trade, which, in its turn, must have preceded the sea-borne trade. And as this last is admitted to have been in existence, even under the most searching criticism of the evidence, by about 700 B. C. there can be no objection in assuming that Indian commerce, as such, must have come into existence at least about 1500 B. C. if not earlier.

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* Up अर्थशास्त्र of Kautilya. For a summary of the Admiralty regulations of the first Mauryan Emperor (321 B. C. to 297 B. C.) See Dr. R. K. Mukerji's *History of Ancient Indian Shipping*, pp. 105 et seq. See also Vincent Smith's *Early History of India* p. 324 et. seq.

† J. R. A. S. 1897, pp. 241-288.

It would be out of the scope designed for this work to enter into any disputation of the evidence, archæological and otherwise, to make more precise the date, by which, we may take it, that the sea-borne trade of the Indian peoples, whether Aryans or Dravidians, had come into existence. Yet we may briefly notice some of the accepted notions which seem to us to have been founded on a misconception of the facts, or a misreading of the available evidence. Mr. Kennedy, as already remarked, has advanced the thesis that, at any rate, the trade of India with the countries beyond the Western seas, did not commence before 700 B. C.[*] Even admitting that statement for the sake of argument for the moment, we need not conclude that the entire sea-borne trade of India is of no greater antiquity. It is a common place of Indian history that the Aryan invaders, coming into the Punjab through the snow-clad passes of the Hindu Kush mountains, spread principally in a south-easterly direction along the plains watered by the Ganges. The natural course of their further progress would take them, by land or by sea, eastwards, and there is nothing in our still surviving records to gainsay the possibility of a good seaward trade on the eastern side. The trade with the Suvarna Bhumi[†] and thence to Java, Sumatra, China and Japan, would be possible by the purely Aryan agency, along and contemporaneously with, the Dravidian trade with countries across the western seas.

Even as regards the purely western trade of India, which has naturally attracted the greatest attention from present-day European scholars and their pupils in the East, we must hesitate before we accept Mr. Kennedy's thesis *in toto*. Speaking of the Dravids, Mr. Kennedy is himself obliged to observe:

> "But the Dravidians of Southern India were accustomed to the sea, and afterwards furnished a large proportion of the ships and sailors, not to say pirates, on the Indian Ocean. So that, although the coastline was long, perilous and uninviting, there is no obvious physical or ethnological reason why an early intercourse by sea should not have existed between India and the West. *I can only say, that as a matter of fact, there is no valid proof of it.*"[‡].

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[*] Op. cit.

[†] The Golden Chersonese of the classical writers, variously identified with the Burma or Ceylon. Cp. McKrindle, *Ancient India*, Vol. II.

[‡] Op. Cit. p. 249.

But he is unjust in his assumptions, and unfair in his criticism of the available evidence. He has entirely ignored the evidence of the Vedic references, which would establish the existence of a good knowledge of the sea and of voyages across it, even in Vedic times and earlier, certainly before 1000 B. C. There is at least one passage (I, 116, 3) in the Rigveda which mentions the voyage of a Rishi King's son, Bhujyu, in some islands wherein he is wrecked on the high-seas, and rescued by the Aswins in their hundred oared galley*. The Aswins are deities which can be paralleled in the Zoroastrian mythology; and so, perhaps, it is not unfair to assume that the islands mentioned in this passage are those in the Western seas. The story of the *Baveru Jatak* Mr. Kennedy regards as referring to a much later date, about the 5th Century B. C.; and, as such, this distinct mention of trade with Babylon (Baveru) he considers as not disproving his thesis. But the misfortune of an inexact or unavailable chronology of Indian peoples is pressed by him too far when he tries to explain away the Biblical references to trade with India, and the Egyptian evidence for the same in periods much anterior to his assumed date.† There are passages in the Bible distinctly referring to the Babylonian trade with India in the Mosaic period (1491–1450 B. C.) and much more frequently in the age of Solomon (1015 B.C.†). There is mention of trade with the Ophir, identified with the region on the mouth of the Indus, which becomes excellent evidence when one recalls the concurrent testimony of the Hebrew language where the words for cloth, ivory, apes, ginger, pepper, rice, peacock, sandal-wood—all products exclusively of India are distinctly of Tamil origin. Says Bishop Caldwell in his classic work: *A comparative Grammar of the Dravidian Languages* :—

> "It seems probable that Aryan merchants from the mouth of the Indus must have accompanied the Phenicians and Solomon's servants in their voyages down the Malabar coast towards Ophir (wherever Ophir may have been) or at least have taken part in the trade. It appears certain from notices contained in the Vedas that the Aryans of the age of Solomon practised foreign trade in ocean-going vessels."‡

Ignoring for the moment, Prof. Rhys Davids's conclusions, (*Budhist India*, p. 116), and confining ourselves entirely to a review of Mr. Kennedy's arguments in support of a rather late origin of the trade of India with the Western countries, we must admit our inability in following him when he discounts the opinion of Lassen, the great German Orientalist, who held :—

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* The Vedic passages containing references to ship and sea-voyages have been all collected by Dr. Mukerji, Op Cit. p. [illegible], Q. V. To the five mentioned there, might be added a sixth, *Rigveda* I, 97, 7 and 8, which forms a sort of motto for this work.

† Even in the Mosaic period (1491–1450 B.C.) precious stones which were to a great extent a speciality of India and the neighbouring countries appear to have been well-known and were already highly valued" Cp *A Geologist's Contributions to the History of Ancient India by* Prof. V. Ball in the *Indian Antiquary* for August 1884. For Biblical references cp. inter alia. Gen. XXXVII, 25, 1 Kings IX, 26–28, 1 Kings, X, 11, Ezekiel XVIII, 15, 24.

‡ Op Cit. p. 122.

> "The Egyptians," says Lassen, "dyed cloth with indigo and wrapped their mummies in Indian muslin; while Chinese porcelain with Chinese letters had been found in a previously unopened grave of the eighteenth dynasty."*

If the dye of the cloth wrapped round the mummies is proved to be indigo, and there seems no reasonable doubt of it, even upon the evidence examined by Mr. Kennedy himself, there would be an end of all his arguments against holding that the Indian sea-borne trade dates much earlier than the 7th century B.C. For Indigo is a distinctly and exclusively Indian produce exported for dye-stuffs, from the earliest times of our foreign trade. † But perhaps on this point it would be best to wait the full description of the recent discoveries at Luxor by Lord Carnarvon in the funeral chambers of the Egyptian King Tutankhamen. Should it be shown to possess any article which can be claimed as distinctly of Indian origin;—like beryls‡ for example—this controversy would be finally ended.

If the fact of the trade between India and her neighbours across the sea on the West could be established as having commenced over 3 or 4 thousand years ago, the next question as to its organisation, and the relative share of the different maritime nations on the coasts of the Arabian Sea, would be, relatively, of second-rate importance. We are not in this place concerned with the relative antiquity of the Egyptian, the Assyrian, and the Indian civilisation. We are also not concerned, therefore, with the actual conduct of the trade by the mariners and merchants of one or the other nations. Mr. Kennedy assumes "that probably in the earliest days the Phoenicians were the sole masters of the eastern seas. But the great mass of the Phœnician people migrated to the Mediterranean at a very remote date, when navigation was in its infancy; and, with their departure, much of the sea-borne traffic of the Persian Gulf probably passed into the hands of caravans from the Arabian emporia. The Chaldeans are the next great sea-power we hear of in the gulf, and they do not appear in history until the ninth century B. C.[*] Assuming that this passage is accurate history, we are bound to ask if the Phœnicians, admitted to be a great sea-faring nation of antiquity, were, for a long time before the ninth century B. C. masters of the Eastern Seas from their headquarters in Asia Minor, did they not have any trade relations with India, also admittedly the most important country commercially in the nearest east to the Phœnicians from Bahrein ? We repeat we are not here concerned with the relative share in the handling of the Indo-Egyptian or Indo-Phœnician trade, by the people of one or the other country. Here we are simply concerned with two admitted facts of history. On the one hand the most ancient Indian literature and folklore abound in indications of a thriving foreign sea-borne commerce.[†] On the other hand there is the evidence of trans-oceanic neighbours having developed considerable civilisations of their own, with the inevitable concomitant of a great maritime activity, long before the date which Mr. Kennedy has assigned as the commencement of India's trans-marine trade with the West. It is impossible to believe that the two did not draw together by the mysterious magnet of trade when they were each so flourishing, even, if such a belief requires it, by the active exertions of only one of them.

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* Op. Cit P. 250, et seq. Lassen *Ind. Alt.* III P. 596 Lieut. Speke in his discovery of the Source of the Niles, secured his best information from a map reconstructed out of the *Puranas* Journal pp. 27, 77, 216; Wilford, in *Asiatic Researches*, III).

"All our previous information" says Speke, "concerning the hydrography of these regions, originated with the ancient Hindus, who told it to the priests of the Nile; and all those busy Egyptian geographers, who disseminated *their* knowledge with a view to be famous for *their* long sightedness, in solving the mystery which enshrouded the source of their holy river, were so many hypothetical humbugs" "The Hindu traders had a firm basis to stand upon through their intercourse with Abyssinians". (Lieut. Speke's discovery of the Nile cp. Schoff's Translation of the *Periplus* p. 227-8.)

† See below the list of Indian exports as compiled from the *Periplus of the Erythrian seas*.

‡ Cp. Vincent Smith, *Early History of India*, p. 400—

The mines of Padiyur in the Coimbatore district were almost the only source known to the ancient world from which good beryls could be obtained, and few gems were more esteemed by both Indians and Romans."

The accounts of Lux or discoveries to hand hitherto have the mention of ebony chairs, which, according to the evidence of Greek historians, is an Indian product; cp. Strabo xv, 37.

But because for the sake of argument we have temporarily accepted above that the trade, if opened in times before the days of Darius, must have been conducted largely, if not wholly, by the Phœnicians or their successors in the mastery of the Indo-African seas, it does not necessarily involve the corrollary or implication that Indians had no share in it; that they were content to remain merely passive importers or exporters without being active carriers, at least in part, themselves. The folklore of India, as typified by stories like the *Baveru Jattaka* or that of Bhujjyu in the Vedas, is definitely against such a conclusion.[‡] Common sense is also against it. For though the classical European writers, like Herodotus or Strabo or Pliny, believed, on the authority of the obscure compiler of the Periplus, or Navigation of the Erythrian seas, that the secret of the Monsoon, the real trade-winds of the Indo-African seas, was discovered by a pilot named Hippalus[§] about 47 A. D., it is impossible to believe that those who carried on this trade centuries before could have remained ignorant of such a regular, annual phenomenon, as the south-west monsoon in the Indian Seas, and could thus have failed to make use of it. There is, in fact, positive evidence to show that Indian mariners, Tamils as well as Aryans, were familiar with this great annual natural phenomenon.

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[*] Op. Cit. p. 246-247.

[†] We have already referred in passing to the evidence of the *Vedas* and the *Jatakas*. To this may be added the classical literature both in the north and the south, as well as the evidence of such works as the Institutes of Manu, or the *Arthashastra* of Kautilya. A people who had come to such highly elaborate notions of commerce, its organisation as well as taxation, could surely not have developed that commerce fifty or hundred years before the works were compiled. Their commerce must have been much older.

[‡] See Supra P. 4.

[§] See Mokrindle's *Ancient India*, Vol. 2. *Cambridge History*, p. 426; *Periplus*, ch. vii.

> "It has been sufficiently proved" says Dr. Vincent in his learned edition of the *Periplus*, "that a communication was open between India and Arabia previous to the age of Alexander; and it is impossible to conceive that those who lived in India or Arabia should not have observed the regular change of seasons and of winds which recurred every year, and of which, if they were mariners, they could not fail to have taken advantage every voyage they performed. It is like-wise certain that vessels frequenting either coast would accidentally be caught by either monsoon, and driven across the open sea on the opposite shore, if they happen to be a few days too early or too late. That this has happened, and that there was a direct passage, by the monsoon, in use before the Greeks adopted it, has already been noticed from the Periplus and fully proved. x x x The Periplus assigns the merits of the discovery to Hippalus himself; but there is nothing unreasonable in supposing that, if he frequented those seas as a pilot and a merchant, he had met with Indian or Arabian traders who made the voyage in a more compendious manner than the Greeks, and that he collected information from them which he had both the prudence and courage to adopt."*

And in McKrindle's translation of classical writers' notices on India, he reproduces a passage from Pliny† which reads:—

> "The same Nepos, when speaking of the Northern circumnavigation, related that to Mettellus Coler, the colleague of Afrinius in consulship, but then a proconsul in Gaul, a present was given by a king of the Suevi consisting of some *Indians* who, sailing from India for the purpose of commerce, had been driven by storms into Germany."

This is an evidence for the active maritime venturesomeness of Indians in times long anterior to Hippalus or the Periplus. And the following gloss upon this passage by the editor renders it still more interesting and significant:—

> "Murphy, the translator of Tacitus, in one of his notes to Agricola remarks thus upon the passage. "The work of Cornelius Nepos has not come down to us; and Pliny, it seems, has abridged too much. The whole tract would have furnished a considerable history for navigation. At present we are left to conjecture whether *the Indian adventurers sailed round the Cape of Good Hope*, through the Atlantic Ocean, and thence into the Northern Seas, or whether they made a voyage still more extraordinary by passing the islands of Japan, the coast of Siberia, Kamaschatka, Zembla in the frozen ocean and thence, round Lapland and Norway entered into the German Ocean."

Without advancing, from such evidence, the perfectly agreeable hypothesis that the circumnavigation of the world was first accomplished by Indian navigators, including the discovery of the North Pole, or at least of Africa, we at least hold that the race of such hardy sea-farers and adventurers could not have remained quite inactive in the foreign sea-borne trade of their own country, long before such distant and dangerous voyages, as the one implied in the above passage, could have been ventured upon. The stories of ships described in the Ceylonese chronicles of *Deepvansa* and *Mahavansa*, not to mention the *Jattakas*,* which could carry 500 to 700 passengers or more with their belongings and merchandise, could not possibly have related only to short river voyages or merely coasting ventures. And these stories, be it noted, relate to a period in which, even according to Mr. Kennedy, the transmarine western trade of India had already commenced.

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* Dr. Vincent, Op. Cit. p. 425.

† Book II, C. 67.

II.—CHARACTER OF THE ANCIENT INDIAN FOREIGN TRADE.

Given, then, the fact that the phenomenon of international exchange had been familiar and practised by ancient Indians from times that certainly go back 2500 years, and quite probably to 4000 years, the next point of some interest in this study is to inquire into the character and organisation of this trade of Ancient India. Consistently with the plan of this work, our survey in this connection must necessarily be very brief. It is undertaken at all because a continued story of our trade, however often the links may be missing, would be instructive in properly understanding the commercial and industrial situation of this country to-day.

THE ARTICLES OF TRADE.

At the threshold of this inquiry we find that the main articles of trade are nearly the same as they are to-day, and have been for all these centuries, though, of course, a notable change has taken place in regard to some of them, while the volume and value in all instances must be admitted to be materially affected. Speaking of this trade, Mr. Danjell, I. C. S., in his work on the *Industrial Competition of Asia*, has well observed that it consisted of an

> "Exchange of such of her productions as among the Indians were superfluities, but were at the same time not only highly prized by the nations of Western Asia, Egypt and Europe, but were obtainable from no other quarter except India, or from the farther east by means of the Indian trade."†

It was thus a trade according to the true economic principle of the differences in comparative cost, i.e. in articles which India either excelled in producing herself, or what she had special advantages for obtaining from her neighbours, to be passed on to other neighbours. Both imports and exports were organised on this principle. Speaking of Buddhist Indian trade, the *Cambridge History of Ancient India* observes :—‡

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* Cp. *Cambridge History of India*, p. 210 et. seq.

† Op. Cit. p. 225 as quoted in *Dr. Mukerji's Ancient Indian Shipping.*

‡ Op. Cit. p. 218.

> "The nature of the exports and imports is seldom specified. The gold which was exported as early at least as the time of Darius Hystaspes, finds no explicit mention in the Jatakas. Gems of variouskinds are named as the quest of special sea-farers anxious to discover a fortune."

And quoting Rhys Davids on Buddhist India, the same authority adds :—

> "Silks, muslins, the finer sorts of cloth, cutlery and armour, brocade, embroideries and rugs, perfumes and drugs, ivory and ivory work, jewellery and gold (seldom silver) these were the main articles in which the merchant dealt."*

Elsewhere, speaking of the commercial features of the Mauryan Empire, the same authority specifies articles of trade as follows:—†

> "Trade was active, various, and minutely regulated. The precious wares comprise many species of gold, silver, spices and cosmetic from all parts of India; jewels, including pearls from southern India, Ceylon, and beyond the sea; skins from Central Asia and China; muslins, cotton and silk from China and further India. The best horses came, as now, from the Indus countries and beyond."

This, it will be noticed, is a description of the trade of the Mauryan Empire at its height, which, however, is not quite identical with the geographic unit India as we now reckon it. Imports and exports are therefore, overlapping in a way, which would not occur, if we considered the trade of India as the unit we now know it to be. According to European scholars, a full and exhaustive list of the Imports and Exports of India is furnished by the writer of the *Periplus*, which may as well be noted here by way of analysis. The lists relate to the imports and exports of Broach—the *Barugaza* of the Classical writers, and *Bragukachha* of Sanskrit literature—which served as the principal port for the whole country north of the Vindhya range and the Nerbudda, and the south Indian ports of Nelkunda (Nilkantha?) somewhere on the coast of Malabar, serving as the gateway for western trade to all the country now known as the Dekhan.‡

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* Rhys. David's *Budhist India*, p. 98.

† Camb. Hist., p. 478.

‡ These lists are compiled from Dr. Vincent's edition of the *Periplus*; p. 370 and not from McKrindle's *Ancient India* (Vol. II) which could not be got in Bombay. The lists are assumed by writers, like Mr. Kennedy (who lays a great stress on the absence of gold from the list of Broach exports) to be exhaustive; but I do not see any convincing reasons to do so. If gold is omitted, so is peacock, or the Indian apes, which, even in the days of Solomon, were marked specialities of India. The fact is, I think, that the author of the *Periplus* compiled a list from his own cursory observation, which is liable to be defective in one particular or another, without thereby involving a reflection upon the accuracy or the veracity of the compiler. In any case, it is quite unfair to argue from the accidental omission of one or the other article, that the entire trade did not exist at a previous date, when the mention of that article in the trade of India is made by quite reliable authority, like the Bible for example. Again, it is quite possible, that at a thriving centre like Broach, one and the same set of articles might figure in exports as well as imports; and it is only on the balance that we can say if it is mainly imported or exported.

III—ARTICLES OF TRADE MENTIONED IN THE PERIPLUS.

Indo Scythia :—Barbaricum (at mouth of Indus river)

IMPORTS.

- Thin clothing, in large quantity,
- Figured linens.
- Topaz.
- Coral.
- Storax.
- Frankincense.
- Vessels of glass.
- Silver and gold plate.
- Wine, a little.

EXPORTS.

- Costus.*
- Bedellium.†
- Lycium.‡
- Nard §
- Turquoise.††
- Lapis lazuli.§§
- Seric skins.
- Cotton cloth.
- Silk yarn.
- Indigo.

India.—The Kingdom of Nambanus—Barygaza.

IMPORTS.

- **Wine**—Italian preferred, also Laodician and Arabian.
- Copper.
- Tin.
- Lead.
- Coral.
- Topaz.
- Thin clothing and inferior sorts of all kinds.
- Bright coloured girdles a cubit wide.
- Storax.
- Sweet clover.
- Flint glass.
- Realgar.
- Antimony.
- Gold and silver coin (yielding a profit on the exchange.)
- Ointments, not costly, little presents for the king.

EXPORTS.

- Spikenard (coming through Scythia, also through Poclais, from Caspapyra, Paropanisus and Cabolitis.)
- Costus.
- Bedellium.
- Ivory.
- Agate and Cornelian (onyx and murrhine.)
- Lycium.
- Cotton cloth of all kinds (muslins and ordinary.)
- Silk cloth.
- Mallow cloth.
- Yarn.
- Long pepper.
- Other things coming from the various ports.

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* *Costus*—This is the cut root of *Saussureal lappa*, order *Compositae*, a tall perenian growing on the open slopes of the vale of Kashmir. In the Roman Empire it was used as a culinary spice, also as a perfume, entering into many of the ointments, though in less quantity, than pepper and cinnamon.

† *Bedellium*—This is an aromatic gum exuded from *Balsamodendron mukul*, order *Burseraceae*, a small tree native in northwestern India ; closely allied to myrrh and frankincense and similarly employed.

‡ *Lyicium*—This was derived from varieties of the barberry growing in the Himalayas. From the roots and stems a yellow dye was prepared ; while from the stem, fruit and root bark was made an astringent medicine.

§ *Nard*—This is the root of the ginger grass, *Cymbopogan schoenanthus*, order *Gramineae* native in the western Punjab. From the root of this grass was derived an oil which was used in Roman commerce medicinally and as a perfume, and as an astringent in ointments.

†† *Turquoise*—a rich stone.

§§ *Lapis lazuli*—a rich stone.

Costly vessels of silver, singing boys, beautiful maidens for harem, fine wines, thin clothing of the finest weaves, the choicest ointments.

India.—Cera and Pandya Kingdoms.

Muziris, Neleynda and Bacare, (to which large ships come for pepper and Malabathram.)

IMPORTS.

Coin, in great quantity.
Topaz.
Thin clothing, not much.
Figured linens.
Antimony.
Coral.
Crude glass.
Copper.
Tin.
Lead.
Wine, not much, but much as at Barygaza.
Realgar.
Orpiment.
Wheat (for the sailors, the country not producing it.)

EXPORTS.

Pepper, produced in Cottonara.
Fine pearls in great quantity.
Ivory.
Silk cloth.
Spikenard from the Ganges.
Malabathrum from the interior.
Transparent stones of all kinds.
Diamonds.
Sapphires.
Tortoise-shell, from chryse and from near by islands.

India.—Chola Kingdom.

Argaru (Inland.)

IMPORTS.

Everything made in Damirica and the neighbouring countries and most of what comes from Egypt.

EXPORTS.

Pearls.
Muslins (named from the place.)

India.—East Coast.

Camara, Paduca, and Sopatma, (where ships come from the west coast), also from the Ganges and Chryse.

Pearls.

Muslins of the finest sort called Gangetic.

(The place has a gold coin called *caltis.*)

Ceylon.—Palaesimundu, formerly called Taprobane.

EXPORTS.

Pearls.
Transparent stones.
Muslins.
Tortoise-shell.

India Ganges Delta.

EXPORTS.

Malabathrum.
Gangetic spikenard.

India—(East coast, farther north.)

Masalia.

EXPORTS.

Muslins, in great quantity.

Dosarene.

EXPORTS.

Ivory.

The lists are obviously unsatisfactory, and it is difficult to realise why the European scholars of modern times have assumed them to be exhaustive. If we put together the evidence of classic writers, both Indian and non-Indian, and correlate them to descriptions of Ancient India as they have come down to us, I think we might frame the list of articles mainly imported and exported from India as follows :—

IMPORTS INTO INDIA.

1. Minerals :—Brass, Tin, Lead, Gold and Silver.
2. Field Produce :—Wines and fruits, Frankincense.
3. Manufactures:—Metal articles (?), Silk, Boats, Precious stones, Pearls, Glass-ware, Chinese Porcelain, cloth(?)
4. Food-stuffs:—Wheat(?).
5. Animals :—Horses.

EXPORTS FROM INDIA.

1. Live things :—Apes, Peacocks, Dogs, (from Tibet) Elephants, Slaves ?
2. Minerals :—Precious stones, *e.g.*, Beryls, Diamonds, Onyxstones, *Pearls*.
3. Manufactures :—Metals :—Iron and steel, Cutlery, Weapons of all sorts, Armour, Gold, Other metalware. Cotton : Cloth, Muslins, Sashes; Silk: Fabrics and robes.

Ivory, Ships, Sandal-wood, Pottery and Porcelain.

4. Drugs and Perfumes: opium; other unguents; Dye-stuffs, indigo.
5. Food-stuffs :—Spices, including pepper, ginger, cloves, nutmeg, cinnamon, cardamum, betel-nuts.

Corn :—Rice principally.

IV.—DIRECTION OF THE TRADE OF ANCIENT INDIA.

If we examine these lists carefully, we find a marked difference in general character between the trade of India to-day, and that about three thousand years ago. India was then principally an exporter of manufactures, while her imports, though diverse, and including some manufactured goods, as for example silk and silk-goods from China, or Pearls from Ceylon or other Precious stones from her western neighbours as also glassware (?), and again Porcelain from China, probably must have been relatively of small importance. She need not have imported the raw material for her manufactures; for, with the possible exception of silk, which we may take to have been a Chinese monopoly, all the necessary raw material was found within her own frontiers. The most prominent example is, of course, that of cotton, the manufacture of which, from the indigenous material, had reached quite a high skill of excellence when Magasthenes wrote in the time of Chandragupta Maurya (321-297 B. C.)* It is impossible to give an exact date when a knowledge of cotton was acquired by the Indian Aryans in a sufficiently high degree to enable them to clothe, by means of it, not only themselves in India, but also to export it to their cousins across the seas and mountains in the North and the West. Mr. Kennedy has held that the wrappings found the Egyptian mummies of the 3rd milennium before Christ are linen, while other scholars before him have considered them to be cotton.† But even admitting the soundness of Mr. Kennedy's view, it does not follow that Indians did not know the art of cotton weaving long before they traded in it with other peoples. The earliest records of history of every people fringing upon the shores of the southern Asiatic seas show the existence of a well-developed cotton weaving industry in this country. A writer of the sixteenth century remarked that "Every one from the Cape of Good Hope to China is clothed from head to foot", in the products of the Indian looms.‡ And, though the authority reproducing this remark, seeks to discount it by pointing out that the peoples who regarded clothing as a prime necessity were extremely limited in number, even he is obliged to concede :

> "We may then restate Pyrard's picturesque and exaggerated account by saying that Indian looms had *a practical monopoly* of the home market for clothes, and in addition had three principal export markets, Arabia and beyond, Burma, and the Eastern Islands."§

This relates to the days of Akbar; but, from accounts no less trustworthy than those of the Portuguese and other European travellers of the sixteenth and seventeenth centuries, there is every reason to conclude that, in regard to cotton weaving, India's position was practically the same in the days of Ashoka and as far backward as History can take us. The same, of course, must be said of the dye-stuffs made out of Indigo, which was as much a natural monopoly of this country, as the art of making cloth from cotton and dyeing it was the acquired monopoly of its people. Cotton manufactures, which may have included umbrellas (cp. Camb. Hist., p. 422), may be taken to have been, principally in the form of dyed stuff, our principal exports from the most ancient times, which must have remained such right up to within a hundred years ago, when the active hostility of the British manufacturers succeeded in crippling this, our centuries old industry. These exports, it may also be noted in passing, needed not to be set off by the corresponding imports of the raw material for the industry which India has produced herself from the earliest times. Of other textiles the modern staple of jute was either unknown or unused in any considerable quantity, though, it must be added, that it certainly was not unknown in the days of the greatest of the Moguls, and probably also not quite unknown among the Mauryas. The Indian protagonists of the medieval Christain monks did not wear sackcloth as a sign of penance; they preferred and used the skins of animals like deer, tigers or lions.[*] It is legitimate to assume from the frequent mention of tiger skins being used as clothing by the ascetics of Ancient India that the art of taxidermy must have been fairly well developed. We do not, however, meet with any record of skins or dressed hides as having formed an article of trade with India; and so we may conclude that raw hides or leather manufactures, though quite well known article, must have formed the subject matter of domestic exchange only.[*] If skins and furs entered into the trade of India, they must have done so almost wholly in the transfrontier trade by land.[†]

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* Cp. Herodotus iii, 106, in McKrindle's *Ancient India*, speaking of "wool which certain trees bear that in beauty and quality excels that of sheep." This is cotton evidently. Cp. Nearchus in *McKrindle* Fragment 9 and 10. "And this linen from the tree is of a more shining white than any other linen. They have a tunic of tree-linen down to the middle of their shins, and two other pieces of stuff, one thrown about their shoulders and one twisted round their head." Quoted in *Cam. Hist. of India*, p. 412.

† Op. cit. Loc. cit.

‡ Pyrard quoted in Moreland's *India at the Death of Akbar*, p. 179.

§ Moreland, Cp, cit. p. 181,

In connection with leather goods, it would be as well to note that, of other animal products,[‡] Ivory was once a prominent article of export from India while pearls and coral are other instances of India's great export in olden time without a need of corresponding import. Musk is mentioned by Dr. Mukerji[§] as amongst the exports of India from the earliest times; but he gives no authority for the statement. Stories of Musk-deer, *Kasturi Mrig*, are, indeed, not unknown; but we cannot conclude that it formed a considerable article of export, unless we may assume that it was included in the rich spices and unguents brought from India in the days of Solomon. Among the animals forming part of the trade to and from India, horses[$] may have, on the balance, been imported; while elephants[‖] are certain to have been exported, though chiefly by the transfrontier land route. Historically the most celebrated Indian animal exported is the peacock, which was not only prized by the Greeks of the Alexandrian era, but apparently by the Jews of King Solomon's as well, though Mr. Kennedy would have it that "Peacocks came, with silver and gold not from Ophir, but from Tarshish".[¶] Even if they came directly from Tarshish by Babylon, it is impossible to controvert the force of the Hebrew word *Thuki*, which is

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[*] Cp. *Nearchus fragments* 9 and 10 and Arrian's *India* 16, as quoted in *Camb. Hist.*, p. 412.

[†] See p. 478, *Camb. Hist. of India*: "They wear shoes of white leather very elaborately worked, and the soles of the shoes are variegated and high-heeled so as to make the wearer seem taller."

[‡] Virgil's George i, 57 "India produces Ivory."

[§] Op. cit. p. 82.

[$] Cp. *Cam. Hist.*, p. 478.

[‖] Cp. Kennedy op. cit. p. 259. "An elephant" unmistakably Asiatic; on the black obelisk of Shalamansar (858-824 B. C.) supplies the first certain evidence of intercourse with India. It appears in company with various other animals. Some Bactrian camels, of the same as the Tamil *Tokei* or *Togei* for peacock; and still more so to deny the force of the ***Baveru Jatak*** which is the sole Budhistic reference to direct trade with Babylon, and deals with a peacock taken out from India to that distant mart of commerce. The list of Indian exports of animals may be completed by adding the Tibetian dogs.

Of the other textiles, silk, which certainly formed a large part of the exports to the West from ancient Indian ports, and "which, under the Persian Empire is said to have been exchanged by weight with gold "* cannot quite be regarded as a native industry of India. It may, indeed, be concluded that the art of silk weaving must have been naturalised in this country for centuries before the rise of the first historical Indian Empire in the 4th Century B. C.; and that the cocoon may have been developed here too is not improbable. But the evidence of Sanskrit literature which identifies silk clothing with China [in passages like the one in *Shakuntalam* of Kalidasa: **चीनां शुकमिव केतोः**] cannot quite be disregarded; and I think we may take it that, however highly the art of silk weaving may have developed in India, silk was an industry really native of China only. The undoubtedly considerable Indian trade was probably in the nature of the *entrepot* trade, in which the stuffs were in the first instance brought to India by the Indian merchants, or their Javanese and Malayan and Sinhalese cousins, from China; and thence re-exported to Arabia, Persia, Egypt, Greece or Rome via the Indian ports. The *entrepot* business was, perhaps, helped by the peculiarly Indian art of dyeing stuff with fast natural colours, which increase their value in the minds of the barbarians of the West.† The *entrepot* trade survives to-day also; but its direction as well as the character has immensely altered. In the Ancient Indian times, the evidence in our possession warrants the belief that there must have been a very considerable *entrepot* trade in silks and Porcelain‡

Continued from page 14.

which double are their backs"; a very ugly and ill drawn rhinoceros called "an ox of the river Sakarya," human looking apes and long tailed monkeys, among which Mr. Houghton thinks he can identify the Indian *Presbyter Entellus*." That Indian elephants were much prized by the Greeks and other Europeans may be further evidenced from the treaty of Seleukas Nikator with Chandragupta Maurya the former ceding a large territory to the latter for 500 elephants. Cp. Vincent Smith, p. 117.

¶ Indian peacocks were worth £40 paid at Athens, (a thousand drachms cp. note p. 362 of McKrindle's *Invasion of India by Alexander the Great*; and for Indian dogs Ibid p. 363.

* Mukerji Cp. cit, p. 82. For this statement the learned writer appends no authority.

† Cp. Ezekiel, XXVII, 24 "These were the merchants in all sorts of things, in blue clothes, and broidered work, and in chests of rich apparel, bound with cords." See also the next verse for Ivory and ebony brought from India in the days of Solomon.

‡ Porcelain is included in one of the lists of Indian exports in the *Periplus*; and pottery is mentioned as a specific craft even in the Vedic age. (See *Cam. Hist. of India*, p. 136) but in the case of pottery, the art does not seem to have developed very much in India to the making of Chinese Porcelain. The vase found in the Egyptian tombs of the 18th dynasty is Chinese and must have certainly come via India. But in this case, we must accept the evidence collected by Mr. Kennedy, which goes to show that these articles, being of much later days, must have been deposited in the tomb subsequently. (Op. cit. p. 251-2.)

from China, and precious stones, including pearls,[*] brought from Ceylon and the Islands of the Indian Archipelago.

Apart from textiles, the most important category of manufactures exported from India was metalware, principally iron and steel goods. India must have reached a very high stage of manufacturing skill in iron at a very early date, since Herodotus mentions that in the army of Xerxes, the Persian King, the Indian contingent was armed with cane bows and arrows, tipped with iron.[†] Ironsmiths are quite an important class in the Mauryan Age.[‡] Speaking of the age of the Rigveda, at least five centuries before the rise of the Mauryan Empire, the Cambridge History of India says:

> "Next in importance (to the wood worker) was the worker in metal who smelted ore in the furnace, using the wing of a bird in place of bellows to fan the flame. Kettles and other domestic utensils were made of metal. It is, however, still uncertain what that metal which is called *Ayas* was. Copper, bronze and iron alike may have been meant."[§]

But whether or not iron and its manufactures were understood by the Vedic Indians their descendants in the Mauryan age had undeniably achieved great excellence; while another six hundred years later, in the hey-day of the Gupta Empire, their skill was equal to turning out the master pieces, known as the iron pillars of Delhi and of Dhar, of which a great geologist wrote:—

> "It is not many years since the production of such a pillar, would have been an impossibility in the largest foundries of the world, and even now there are comparatively few where a similar mass of metal could be turned out."[§§]

Describing the Delhi pillar, the late Dr. Vincent Smith wrote:—

> "It is now established beyond the possibility of doubt that the material of the pillar is pure malleable iron of 7·66 specific gravity, and that the monument is a solid shaft of wrought iron welded together. . . . The total length of the pillar from the top of the capital to the bottom of the base is 23 feet 8 inches. Twenty-two feet are above ground, and one foot eight inches are below ground. The weight is estimated to exceed six tons."[††]

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[*] Pearls and some other precious stones may also be regarded as articles of *entrepot* trade, if we consider pearls to be a monopoly of the Sinhalese waters, not included in the Indian Empire. Politically as well as geographically, Ceylon and the Islands of Archipelago (Indian) having been independent of the Indian continent, there is nothing objectionable in making this assumption.

[†] Herodotus, Vii, 65; Viii, 13, IX, 91 cp. Vincent Smith, *Early History of India*, p. 35.

[‡] Cp. *Camb. Hist. of India*, p. 209, et. seq. 477 et. seq. "Iron was probably not known in the age of Rigveda; but it undoubtedly occurs in the period immediately following when it is known to the Yajurveda and Atharva Veda as *Cyama ayas* or black copper." op. cit. p. 56.

[§] Op cit. p. 100. Elsewhere (p. 615) the same authority gives one thousand B. C. as the date of its probable introduction.

[§§] *Economic Geology of India*, by V. Ball, p. 338.

[††] *Journal of the Royal Asiatic Society* 1897, p. 4.

Dr. Smith, we may observe in passing, does not seem to make sufficient allowance for the facts that the pillar stands in the midst of a Mahomedan mosque; that the iconoclastic zeal of the early Moslem may have lopped off a considerable portion from the original pillar, if not through sheer iconoclasm, at least on account of the exigencies of the mosque architecture, and that consequently both the height and the weight of the original monument may have been much greater. Certainly the three pieces of the Dhar pillar, aggregating 42 feet in height, must have weighed proportionally more, and involved greater skill and daring in forging and welding the same.* The skill that made such pillars could not have grown in a day, nor be the property of a freak or genius. It must be the growth of centuries of silent development; and one does no harm to one's sense of history in assuming that iron manufactures—like implements and weapons of all sorts, armour &c.—must have been made in India centuries before the Christian era, mostly, of course, for domestic consumption, but quite appreciably for export as well.†

As in the case of cotton goods so in the case of iron manufactures, the raw material being available in plenty at home, India needed no imports to off-set the exports of her weapons, armour and cutlery. In the case of other metals gold was a great exportable article in ancient India, supposed to be dug out by the so-called gold ants, which, however, though frequently mentioned by almost every classical writer, is now explained as representing the Tibetans and their crude methods of gold extraction.‡ We are now so much habituated to regarding both gold and silver as articles of Import largely; and even in the age of the Pandyas and the Cholas gold was so frequently imported from Rome and her provinces to pay for the excess of Indian exports, that, at first sight, it becomes difficult to accept the view that gold could have been a native product of India. But even if we do not regard Tibetan gold as really native Indian gold—Tibet being outside the frontiers of India—geological evidence suggests that alluvial deposits of gold must, at one time, have been very considerable in this country.§ The large stores of gold—as ornaments and plate—found in India at the time of the invasions of Mahmud of Gazney and his successors in invading India could hardly have been amassed, perhaps, as the result of the gold obtained on the balance of trade exclusively. Some domestic production may thus be postulated without doing any violence to the known facts of

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* Cp. Vincent Smith in J. R. A. S. 1898, pp. 143-145: Do not these two survivals suggest the possibility of a by-gone age of iron monuments under the Guptas and their successors as the stone monuments were the peculiarity of the Maurya age.

† Cp. Dr. B. N. Seal's "*The Chemical Theories of Ancient Hindus.*"

‡ Cp. *Indian Antiquary,* Vol. iv, pp. 225 et. seq.

§ See Dr. V. Ball, I. A. for August 1884. Mr. Kennedy op. cit. p. 254, writes, apropos of the export of gold from India, "Although gold was found in the mountains far up the Indus, it was not exported from Barbarike, the port for Aberia and the Indus delta. The gold of India was exported in the shape of gold dust, the gold of Ophir apparently in nuggets".

History.[*] *It may be* however, that on the balance, gold was imported *much more than exported; and that it may have thus* figured on both the *sides of the trade balance in the age of the Mauryas and Guptas* as it does to-day. The same may be said of Silver.

If metal ware is heavy and consequently difficult to introduce in trade during an age in which transport facilities were not very great[†] the trade in other minerals, like the precious stones, may have met with no such difficulty. Precious stones of all kinds, with pearls heading the list, formed the subject of Trade between India and her neighbours from the earliest times. Indians were certainly fond of such stones, and they may have quite probably imported large stores of it. But they had a surfeit of pearls, beryls, onyx stones and these, with others still more valuable, may have been exported after the domestic needs had been met. Like gold and silver, the Precious stones, we may assure, must have figured on both sides of the trade account; though it is difficult to say from the evidence we can command, if, on the balance, more was exported than imported, or vice versa. In view of the large imports of gold from Rome in the days when Pliny wrote, the guess may be hazarded, however, that the excess was, at least from the stand-point of value if not of quantity, on the side of exports from India.[‡] Other metals, like brass or tin, lead etc. were certainly imported, though the form in which they were imported is not specified. As cotton manufactures, dye stuffs etc., were wholly Indian exports so these may be taken to be wholly Indian imports. Glass-ware and Porcelain may also be added here to the list of Indian imports, though some of the porcelain may quite possibly have been exported again.

There are no other manufactures in the trade lists to consider, unless we consider woodwork, and particularly ships, as having been articles of export from India. Sandal-wood as a luxury, and teak-wood as a necessity, were certainly in demand from the days of Darius Hystaspes. But these must be treated as raw material mainly, no greater labour than that of collecting and carting being expended upon them prior to exportation. Of ships it is difficult to say, though Indians were great ship-builders and mariners in the days, when, on the most conservative estimate, the transmarine trade of India had certainly begun. Perhaps, the fact was, that, as with Britain in the latter half of the nineteenth century, the Indian ships two thousand years ago and more formed items of the so-called "invisible exports" doing their work of transportation and charging for that service in the shape of increased prices. That ship-building was an industry essential to the national existence was quite well-understood by the Mauryas who held ship-building to be a state monopoly.* But that does not quite justify us in assuming that ships formed part of the trade of India bodily. On the other hand there is good reason to assume that Indians of old did their own ocean-carrying, and perhaps a little bit more, when we recollect the story of ancient Indian colonization, as at Java and Sumatra.

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[*] "More than this, however, recent explorations have confirmed the fact, often previously asserted, that in Southern India there are indications of extended mining operations having been carried on there". Ball op. cit. The same authority adds that some Kings insisting upon tax payment in gold from some sections of their subjects, the latter were obliged to spend months washing for gold.

[†] Impressed with the modern railway as the only agency for inland transport, we are apt to underrate the importance of the roads, and still more of the rivers as good means of transport of all commodities irrespective of their weight. In the days of the Maurya Empire, if not earlier, the roads were well looked after. Cp. the famous edict of Asoka cp. Vincent Smith's *Early History*, p. 132. Also Mukerji, Op. cit. ch. II : Ships of the capacity of 1000 or 1500 tons or even more were by no means rare or unknown amongst Indians of 2000 years ago.

[‡] Re. Indian drain of gold from Rome, see below.

Of raw material, the most important trade was in spices and drugs and unguents, including therein pepper, cinnamon, cardamum, cloves, nutmeg, assafoetida, betels, camphor, opium, musk and flower essences, oils etc. The last mentioned may be classed as manufactures in so far as they were fragrant oils or flower essences (attars) which were certainly very largely in demand among the Romans at the beginning of the Christain era, and quite probably in demand by the kindred peoples much earlier. The whole list of spices may not have been entirely indigenous produce; and, in later history, if not about the time we are here speaking of, Java and Sumatra are certainly contributing quite an appreciable proportion of the spices as cargo in the European vessels. We may take it, then, that spices figured on both sides of the trade account, though on the balance, exports must certainly have preponderated; while even such quantities as were in fact imported from Java, Sumatra etc. may have served to increase our *entrepot* trade with the western neighbours. Opium is nowhere specifically mentioned in the lists of imports and exports; but it has so long been a practical monopoly of India, that it possibly escaped specific enumeration by Western traders or travellers who were no great consumers of the drug. It is probably included in the drugs so frequently mentioned. Of other food-stuffs, rice has certainly formed part of Indian exports in the earliest times, as evidenced by the survival of the Tamil word for that article in the Greek tongue. But, as the *Periplus* says, in view of the difficulties of transporting such perishable commodities over large distances in ships of those days, the probability rather is that rice and other cereals were subject matter of trade only in so far as they were required for the victualling of ships.† Wheat is mentioned as having been imported at one of the Indian ports; but it may be doubted if it ever formed a staple article of regular commerce in the past, as it does to-day. Wines figure in the list of imports but not to a very large quantity.

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* Megasthenes reproduced in *Strabo* XV, 46 : "But the armour makers and ship-builders receive wages and provisions from the King for whom alone they work".

Dr. Mukerji's monograph on Ancient Indian Shipping nowhere quite states if the Indian ships were so far superior to the structures of their neighbours as to be in demand amongst the latter, and so bodily exported from India.

† Cp. Dr. Vincent's edition of the *Periplus* p. 414 et seq.

This brief review of the principal articles in the Indian trade of two or three thousand years ago cannot be complete without mentioning one item, which deserves more than a passing notice. *Slaves* are mentioned as imports from Kane, Obolesk and Omana.[*] But it is not clear where they came from. It is, however, perfectly certain that India never had a traffic in slaves. Apart altogether from the religious sentiment of perfect equality of all living creatures, which, certainly from Budhist times if not earlier, laid a positive embargo on this inhuman traffic,[†] there is the known fact of history that traffic in human beings was never made the cold-blooded business in India of the Aryans that it was made by the Christian Europeans after the discovery of the Americas. Megasthenes and his contemporaries may have exaggerated in completely denying the existence of slavery in India, though, in justice to these ancient observers, it must be pointed out that the class of domestic helps—the *dasas*—were not at all akin to the slaves as modern interpreters have sometimes imagined. But even assuming that an institution at all resembling the Greek conception of slavery at all existed at the time of the Macedonian invasion, there is no authority for holding that slaves could be freely bought and sold and be exported out of the country.[‡] The truth appears to be that, *dasas* were a class of domestic servants, who, owing to the scarcity or unfamiliarity of coined money, were paid for their services almost wholly in kind; and they being attached to the household where they served, did not leave them—perhaps were not able to leave them. But they had good opportunities to leave—or free themselves—if they so desired, usually their own earnings helping them to commute their services, as at a later date was the case with the serfs in England, and so gain their freedom.[§]

✓V. CHARACTERISTICS OF OUR ANCIENT TRADE.

On a general review, then, of the commerce of Ancient India from the earliest times to 1000 A. D., we find the **chief characteristic of that trade to be a heavy export of manufactured goods** qualitatively speaking. Raw material for further manufacture abroad there certainly must have been;

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[*] *Periplus*, Dr. Vincent's edition, p. 343.

[†] "Among trades five are ethically proscribed for the lay believer—daggers, slaves flesh, strong drink, poisons". *Camb. Hist.*, *p.* 135, See also *Manu*, VII, 96 which leaves out from the list of the conqueror's booty in victory, the item of the vanquished soldiers as slaves. At a later age Akbar definitely forbade this inhuman practice.

[‡] "The slave or servant was an adjunct in all households able to command domestic service; but slaves do not appear to have been kept, as a rule, in great numbers, either in the house, or, as in the West, at mining or "Plantation work." *Camb. Hist. of India*, p. 205.

[§] The latest annotator and translator of the Periplus—Dr. W. H. Schoff of Philadelphia, in commenting upon the mention of Slaves in a list in the *Periplus* says: "The Arabs were inveterate slave traders, then as now, and the ports of Oman were always active slave markets". (p. 161, Op. cit.).

and food-stuffs, chiefly in the guise of edible spices, did also figure in our exports schedule. But from the point of value of goods, exports must have preponderated over imports, textile manufactures of all sorts forming the bulk of these. It was entirely on account of the preponderance of such valuable exports, that India contrived, even in the days when Pliny was writing his natural history, to drain the West of its supply of gold coin and bullion.* Though the main feature of India's foreign trade may thus appear to have remained in tact throughout the course of centuries, we must not overlook the vital difference in the tribute of precious metals paid to India in the 1st century A. D. and that which she used to derive in the twentieth century, viz. that while ancient India was, for all her own requirements of food for the people and raw material for the industries, entirely self-sufficient, with the possible exception of raw silk, at the present time India is becoming more and more dependent on foreign imports for her conventional necessaries and those of efficiency. The trade of ancient India—as in fact of all early communities—must have been a trade in luxuries. The trade of modern India is radically different. As India in olden times produced more of such luxuries, relatively to other peoples, she naturally had a very considerable volume of trade, always with a favourable balance due to her, after her imports had been paid for by her exports. The present day surplus of exports seems rather the result of special encouragement under political exigencies, which compel the existing Government to veil the tribute which India has to pay her foreign masters under forms less exposed to public criticism and obloquy than direct exactions would be. And that surplus is the more reprehensible in that it consists of a great deal of raw material and food products, which might well have remained in the country to be manufactured and disposed of within the country itself, instead of obliging it to buy the corresponding manufactures from abroad. As, however, we shall have to discuss this aspect of the modern problem more fully in the following pages, we leave it here and with just a bare mention of its peculiarity.

A detailed comparison of the trade Schedules of to-day with those of two thousand years ago, will no doubt reveal some notable gaps. We have already referred to the reversed position of manufactured goods. But to make the contrast more clear, we may point out that such first-class items of modern Indian export, as tea, and jute, and wheat, are altogether absent in the ancient schedules; tea because it was unknown in India and unneeded by the neighbours with whom she traded; jute because, even if it was known and cultivated, it was an article of too insignificant a value to be exported; wheat perhaps because of the difficulties of transport. On the other hand articles which once figured prominently in our exports schedule—like dyes and dye-stuffs—find no place in the present-day items of export, thanks to a revolution in the arts of production. The same shifting of position appears on the Imports side as well. We now import very considerable quantities of textile manufactures, iron and steel goods, tobacco and provisions, which previously we did not need to bring from outside. *Thanks once more to a revolution in the arts of production. In the Imports schedule, it may be noted by the curious, there is no article which used to be imported in older times, but which has ceased to be imported now.*

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* According to Pliny's *Natural History*, xii, 18, there was "no year in which India did not drain the Roman Empire of a 'hundred million sesterces.'" This would equal in English money a million sterling, or a crore and half of rupees at the present rate of exchange.

Another characteristic of the ancient Indian commerce which may as well be noted here, **is the presence of a large *entrepot* trade**, which still persists, though perhaps in slightly altered forms. Pearls from Ceylon; gold from Tibet, Burma and the Golden Chersonese (wherever that may be); precious stones and spices from the islands of the Indian archipelago; horses from the countries beyond the Indus; silk and procelain from China; were all brought into the ports of this country, to be thence re-exported to countries of the West, leaving us, presumably, a handsome commission as middle men. Whether it is simply the result of our geographic situation midway between the consuming (or producing) countries of the East and the producing (or consuming) peoples of the Far West; or the consequence of the skill and daring of our merchants and mariners, their familiarity with foreign countries and adaptability in industrial production to those needs; the fact was as true in the days of Chandragupta and Asoka as of Akbar and Shah Jehan; of Victoria and Edward and George that India maintained a considerable *entrepot* trade, which can only be destroyed if she woefully neglects her commercial interests. As we shall see more fully later on, the immense possibilities of our transfrontier trade, with all the magnificent hinterland of Central Asia, comprising still unexplored items of animal and mineral products, have been in this age very much neglected, owing to the vast proportions of our present day sea-borne commerce. If India's foreign commerce is to expand on the most natural lines, the transfrontier trade can no longer be neglected. For, with railways on the frontier, originally constructed for strategic ends, but quite capable of being utilised for commercial purposes if only we drop the suicidal rivalries of an unprofitable Imperialism, there is now none of the difficulties which beset our ancestors of two thousand years ago in the shape of the absence of adequate means of communications. And whether that trade is for our own surplus or necessaries, or, which is not unlikely, by way of an *entrepot* halt, we stand in either case to derive—as we did in the past—a handsome benefit from it. But of this more hereafter.

The existence, however, of an *entrepot* trade could not have been possible in those days, without the necessary concomitant of a considerable fleet of merchantmen. Indians of the Aryan age must have been great carriers. Today, it is true, India continues to possess a certain amount of *entrepot* trade even though she does not possess any share worth mention in the transmarine carrying business of the world;[*] but the conditions of to-day must, in part, at least, be held to be peculiar; and in so far as they are not, we must concede the present day *entrepot* trade is not quite as profitable as it could be. In the Aryan age, up to a thousand years ago,—or better still up to less than two hundred years ago, India had at least her fair share of the world's carrying trade in her own bottoms, manned by her own sea-men, and built of her own timber in her own ship-yards. For further information on this point we need only refer to that monograph on ancient Indian Shipping to which we have more than once referred in these pages.

VI. THE ORGANISATION OF THE TRADE OF ANCIENT INDIA.

With the carrying business mainly in their own hands, and with a very considerable *entrepot* trade, it would not be surprising if we find the system of trade organisation carried to a very high level in ancient India. Whether or not the castes of modern India have developed from the trade guilds of ancient India, † it is perfectly certain that, at least about the 5th century B. C. if not much earlier,

> "crafts and commerce are flourishing, highly organised corporately and locally, under conditions of individual and corporate competition, the leading men thereof the friends and counsellors of kings. We have found labour largely hereditary, yet, therewithal, a mobility and initiative anything but rigid revealed in the exercise of it. And we have discovered a thorough familiarity with money and credit ages before the 7th Century A. D."‡

After a most careful study and analysis of the folklore of India, we find the same high authority describing large towns or centres of exchange, where "textile fabrics, groceries and oil, green groceries, grain, perfume and flowers, articles of gold and jewellery are among the articles sold in the bazaars" of the *Jataka* age. § Partnership in commerce were fairly well understood || though individual freedom of initiative and pluck were not restricted, as in a later-day joint stock enterprise, by merely travelling together in the same caravan or bound on board the same vessel. For purposes of discipline, the *Sarthavaha*, or caravan-chief, may have been accorded a certain degree of prestige and authority among his fellow travellers and traders. But the latter by their acquiescence did not surrender their independence.

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[*] Dr. Mukerji's work is excellent in regard to the Muhammeadn and the pre-Muhammedan periods of Indian Shipping; but rather scrappy as to the later period. He has not done sufficient justice to the efficacy of the British Navigation laws, which, while building up the mercantile marine of England, has helped thoroughly to destroy the merchant ships of her dependencies.

† Cp. Mrs. Rhys Davids in J. R. A. S. 1901, p. 866: "The Chief industries were organised into guilds (*seniyo*) under a president (*Pramukha*) or elder (or older man *Jethaka*) Eighteen guilds are frequently mentioned as being summoned by the king to witness his procedure or to accompany him".

‡ *Cambridge History of India*, p. 219.

§ *Ibid*, p. 215.

|| Cp. *The Kutavanijya & the Mahavanijya Jatakas.*

> "The act of exchange between producer and consumer, or between either and a middle-man was, both before and during the age when the Jataka-book was compiled, a 'free' bargain, and a transaction unregulated, with *one notable exception*, by the system of statute fixed prices".*

Price determination was *thus more in accordance with the conception of the normal price* of modern economists, with the incidental result of extraordinary profiteering, giving in one recorded instance at least a profit of 20000 per cent.† The intervention of money as the commonly accepted medium of exchange is perfectly well-known in India since the age of the Jatakas at least, and the chief coins were *Katiapana*, *Nishka* and *Suvarna*, all of gold.‡ It is curious to note that while the Budhist literature is full of allusions to these coins and their fractions.

> "*Of the coins* called *puranas* this literature knows nothing."§

Subsidiary coinage of bronze and copper the *Kamsa*, the *Pada*, and *Kanishka*—were equally popular; while cowrie-shells were used for purposes of account-keeping in regard to small fractions of commonly used units of payment. The absence of any mention of the *Purana* coins in Buddhist literature is the more note-worthy in that Mr. Kennedy, in his learned article, has maintained, and many scholars after him have believed, that the art of coinage was borrowed by India from Babylon as shown by the *Purana* coinage.|| The evidence of the Buddhist literature of an age anterior to the rise of the Indo-Babylonese commerce, as conceived by Mr. Kennedy, must be held to be conclusive in regard to India having evolved herself her own currency system instead of borrowing them from her neighbours, though, of course, improvements in detail, like individual coins, may have been received in the usual course of trade from abroad. And this quite apart from the radically false conception of the evolution of currency as put forth by the late Dr. V. A. Smith.¶

> "There is reason to believe that the *necessities of commerce with foreign merchants* were the *immediate* occasion for adoption by the Indian people of a metallic currency as well as of alphabetical writing."

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* *Camb. Hist. of Ind.*, p. 216: The exception was the purchases of the King which were made by officially regulated prices.

† Jataka I, 121 et seq. cp. also *Camb. Hist.*, p. 216.

‡ Cp. J. R. A. S. for 1901, pp. 882 et esq. Mrs. Rhys Davids: "all marketable commodities & services had a value expressible in *terms of cash* e. g. meat, spirits, ghee & oil, clothing, horses, asses, oxen, chariots, slaves, plate, sandal wood, valuing, medical aid, teaching, the skill of the archer & the artist, the protection of the forest, guard, the hire of carriage or oxen, pensions, doles, fines, tolls, the loan of money &c. &c." p. 879.

§ *Camb. Hist. of Ind.*, Vol. I., p. 217.

|| For Kennedy see J. R. A. S. 1897 op. cit. For other scholars see, *interalia*, Vincent Smith in the *Imperial Gazetteer of India, Vol. II*, p. 135 and the rejoinder of the present writer in "*Indian Currency Exchange and Banking*," ch. II, p. 36.

¶ *Imp. Gaz.*, Vol. II, p. 135.

We may take it as a commonplace of economic history, that the evolution of domestic exchange precedes that of foreign commerce; and that the needs of domestic exchange, which even now is ten or twenty times more important than foreign commerce in even the most advanced commercial nations, will at least be as insistent as those of foreign exchange to demand the creation of a commonly acceptable medium of exchange.[*]

In a society where trade in all sorts of articles and with all manner of countries was so flourishing, as we know to have been the case with ancient India; in a society so accustomed to money valuations as the Buddhist age of India undoubtedly was, the evolution of substitutes for money, or credit instruments as we would now describe them, would be a matter of course. Says Mrs. Rhys Davids:[†]

> "Of substitutes for current coins (or what were used as such), or instruments of credit, we read of signet-rings used as deposits or securities, of wife or children pledged or sold for debt, and of promissory notes or debt sheets".

Even though the last would be in the form of mere registrations as between lender and borrower, their evolution and use must be held to mark a distinct advance in commercial civilisation. The same writer describes the last mentioned instruments as I. O. U.'s in the Cambridge History of India,[‡] implying thereby, if not their negotiability, as we now understand the expression, at least their very common use without transfer, between merchants and bankers. The *Shethi* of the Buddhist literature [||] apparently kept large cash amounts on hand, which they either loaned, or, more probably, used in business of their own as merchant-bankers. Certainly, the minute regulations as to loans of money and interest thereon, mentioned in both the Buddhist canonical works and in the Hindu *Dharmashastras*, like the standard code of Manu or Chanakya,[¶] could not have occurred had not money-lending been a well-known business. The echo of the Aristotelian and Christian fulmination against interest on money loans is, indeed, found in the still earlier works of the Indian legists.

> "The general tendency of this profession to evade any legal or customary rate of interest and become the type of profit-mongering finds condemnation in other law-books." [§]

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[*] "No one can read the Buddhist canonical works without being struck by the rarity of any allusion to silver as compared with the frequent reference to gold and other metals. It was not till towards the Christian era that silver became widely current." Mrs. Rhys Davids in J. R. A. S. 1901, p. 877.

[†] Op cit. J. R. A. S. for 1901, p. 879.

[‡] Vol. 1, p. 218 See also *Manu*, VIII, 180: "As was the deposit so must be its redelivery."

[||] Mrs. Rhys Davids, Op. cit. p. 882. "If there are any grains of accuracy in the account quoted by Hardy, the unit is evidently a gold coin, 540,000,000 of which expended on the Jetavana site buildings etc, went near to emptying Anathapindika's great hoard",

[¶] Cp. Jataka IV, 422; see also Vas., II., 41, 42; *Manu* III, 153, 180; VIII 152, 153, Baudhayana 1, 5, 10, 23-5,

[§] *Camb. Hist.*, p. 218.

But in the Buddhist period, and under the Buddhist influence, the

> "Legal rate of interest probably between 400 B. C. and 200 was five mashas a month for twenty *Katiapannas*. This is a rate of $18\frac{3}{4}$ per cent per annum if we take 16 mashas to the Katipanna, or 15 per cent per annum, if, with Haridatta, who wrote only 400 years ago, 20 mashas are allowed to the Katiapanna." [*]

The importance of the mercantile calling, with its necessary adjunct of banking and credit, must have been particularly stressed under the Buddhist and Jain influences; since these two cognate bodies of religious doctrine would imply a general condemnation of many an industrial pursuit, that, according to their conception, would involve a harm or destruction of life; and consequently confine their faithful more and more to the relatively innocuous pursuit of commerce. It is a curious parallel that the Jews of Europe and America, like the Banyas of Gujerat, have been compelled to be merchants and bankers, after the decay of their temporal power, as much owing to the exigencies of history, as to the peculiar interpretation of their religious creed. [†]

VII. COMMERCE AND THE STATE.

With such a development of commerce, it would be strange indeed if the relation of the state towards trade were undefined or unknown. The conception of the King as embodying the entire state in his person is foreign to Indian history; and, therefore, the state activities which emanate from the King only, or chiefly, takes the form of collection of taxes on merchandise, supervision of weights and measures etc. The *Artha Shastra* of Chanakya, supposed to be composed in the days of the founder of the Mauryan Empire, gives minute details of such dues and taxes, those on commerce taking the shape of octroi, road and ferry tolls, ship-duties, and a merchandise tax in kind levied impartially upon exports and imports. [‡] Manu lays down : (VIII, 127-133)

> "Having well considered the rates of purchase and sale, the difficulties of transport and the overhead charges, let the king make the trader pay duty.
>
> After careful consideration the king shall fix in his dominion the duties and taxes so that both the State and the producer get their just share. [§]
>
> As the leach, the calf and the bee take their food little by little, so the King must draw from his Kingdom moderate annual taxes.

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[*] Mrs. Rhys Davids, J. R. A. S., 1901, p. 880-81.

[†] It may be mentioned, as a rather strange commentary on the above, that the Jain Banyas of modern Gujerat, after a monopoly for centuries of the Pearl trade in all its vicissitudes, have recently passed a resolution declaring their intention to give up this cruel trade.

[‡] Cp. *Artha-Shastra*, Bk. II, Ch. XXVIII. See also Manu, VII, 127, 133.

[§] Cp. Adam Smith's *Canons of Taxation*, particularly that of convenience and of economy.

A *fiftieth* part of the increments in cattle and gold [*] may be taken by the king, and the *eighth*, *sixth* or *twelfth* part of the crops. He may also take the *sixth* of trees, meat, honey, ghee, perfumes, medicines, condiments, flowers, roots and fruit [†] as also of leaves, pot-herbs, grass, canework, stone, porcelain, and stone-work.

This list, it will be noticed, is strangely silent about cotton stuffs and silk-goods, metal work and implements of war or chase, as well as aids in transport, like chariots, carts, horses or elephants, unless we include these in the general rule in 127—the very first rule as quoted above. It is a little surprising that such articles of manufacture and general trade do not come within the purview of specific taxation. As mentioned above, certain trades, like ship-building and munitions—manufacture, were either specially protected, or even made into a state-monopoly from the days of the Mauryan Empire onwards. But, after a careful review of the evidence we can command, it seems unlikely that the Indian State had, in the period reviewed here, realised the duty of conscious promotion of indigenous enterprise and industry by means of active fiscal assistance of the type that now characterises the fiscal legislation of modern states. The explanation for such an absence of state interference may probably be formed in the very high level to which Indian industry had no doubt attained and which it maintained all through the period under review, rendering it unnecessary as well as unwise to interfere in the natural development of commerce. Freedom of trade is unquestionably advisable for countries at a high level of industrial activity. And, in case the freedom of exchange threatened to weaken unduly any particular trade or industry, reliance could, and probably was, in fact, placed upon the internal organisation of each trade to secure duly its own interests. In any case the general conclusion is inevitable, that, in the earlier periods of Indian history, conscious, deliberate, collective assistance to trade or industry by means of fiscal regulations was unknown; and that imports and exports were taxed alike impartially, mainly, if not exclusively, for the purpose of a revenue to the State.

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[*] Is this a tax on interest? I am inclined to think it can mean nothing else.

[†] If this is only a tax on garden produce, its significance would be quite different from what it might be if we regard it as a tax on trade in fruit, which must presuppose an art of preserving these perishable articles.

B

VIII. INDIAN TRADE IN THE MUHAMMEDAN PERIOD.

1100 A. D. to 1700 A. D.

Coming next to consider the Trade of India during the Muhammedan period, roughly covering the period 1100–1700, it may be remarked by way of preface, that this being a period relatively unsettled, trade development could not take place quite so effectively as would be the case under a more peaceful regime. The sway of the Delhi Emperors, until the advent of the Mughals, was never uniform throughout India, nor unbroken for even half a century or a generation. The Deccan was relatively free from the dynastic differences of northern India, though even in the regions south of the Vindhyas, the clash of Hindus and Moslems was neither unknown nor without influence. The trade of Malabar with China and the West no doubt was flourishing all through this period in the principal articles which formed the staple of that trade in pre-Muhammedan and ancient India.[*] Spices, including pepper, cloves, nutmeg, cardamum; precious stones, comprising pearls, diamonds, beryls, rubies from the mines of Golkonda; cotton goods of all description; woollen shawls, and carpets; Chinese porcelain and Venetian glass; [†] Indian artware of all kinds; animals, principally horses [‡] these formed the bulk of imports and exports at the south Indian ports; and no doubt also figured in the overland trade from Agra *via* Lahore to Kabul and thence to Central and Eastern Asia, and from Multan to Kandahar and thence to Persia and thence to Western Asia and Europe *via* the Ottoman Empire.[§] Trade, indeed, as viewed by modern standards, could not have been very considerable in this age of unsettled politics and defective communications. But measured according to the standards common for this and other countries of the period, and after allowance is made for the admitted hindrances to that trade, there is no reason to doubt that the volume as well as the value of that trade must have been quite considerable. It must, of course, have consisted chiefly of the most valuable articles in the smallest possible bulk; so that it could have no counterpart in the modern Indian trade in food-stuffs and raw material.* It must also have consisted chiefly, if not wholly, of the *surplus* produce of the trading countries, which maintained the ideal of self-sufficiency, trade being mostly in articles of luxury as distinguished from the large percentage of necessaries of life that enter into modern trade. †

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[*] *Cp. India in the Fifteenth Century* (Hakluyt Society's publications i & ii). Speaking of Calicut an Arab traveller of the XV century Abd er-Razaak says "From Calicut are vessels continually sailing for Mecca which are for the most part laden with pepper. x x x In this harbour one may find every thing that can be desired."

[†] See Vincent Smith's *Akbar*, Ch. XIV, p. 411-12.

[‡] Says Marco Polo (1308 A. D.) "The greater part of the revenue of the country is employed in obtaining horses from foreign countries" (*Travels*, Murray's edition, p. 296 An Arabian traveller called Wassaf estimated the import of Arab and Persian horses in Malabar alone at 10,000 animals a year in the reign of Abu Bakr. cp. *Elliott, Hist. of Ind.*, Vol. III, p. 28-35.

[§] Moreland's '*India at the Death of Akbar*. "Practically, therefore, there were only two regular routes on the entire frontier—from Lahore to Kabul and from Multan to Kandahar....Kabul was a large commercial centre, and a meeting place for merchants from India, Persia and the countries to the north, while it lay on the route from India to the main Caravan-road between western China and Europe: Kandahar was the doorway from India to the greater part of Persia." (p. 219) In view of the close relations with Afghanistan during the Mughal period, we think Mr. Moreland rather underestimates the importance of our overland trade during this period.

A connected, consistent and instructive account of the trade of India during this period is almost impossible to afford. The best attempt hitherto made is that of Moreland, in his monograph on "*India at the Death of Akbar.*" That writer does not really confine his survey to a given date, as the title of the book would lead one at first sight to believe; but gives a picture, based on good research, ranging practically over a century or more. As Akbar's reign may be taken as the central epoch of this period, it would not be amiss to reproduce here in substance Mr. Moreland's account of the trade and industry of India, with its direction, organisation and relation to the state. Mr. Moreland, it seems a misfortune, is apparently intent upon making out a case *against* the Mughal India as compared with India under British rule. His estimates and observations, as we shall indicate in the proper places, are defective; but, making allowance for the, we believe, unconscious partisanship, which mars the value of such a work, Mr. Moreland's attempt is certainly worth recapitulation in these pages.

IX. INDUSTRY IN MUHAMMEDAN INDIA.

Premising in general that India was during this age very nearly self-supporting, Mr. Moreland observes:

> "The country produced all the food and food-adjuncts which ordinary people required, though not always in sufficient quantities to satisfy all needs; imports under this head were practically limited to fruits, spices and stimulants. In the same way, all ordinary clothes were made in India, but silks, velvets and broad cloths were imported from various parts of the world."‡

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* Moreland Op.cit. p. 236-7: "Taking East and West together, and reckoning the commerce with the islands on both sides of the peninsula, the total volume of the Indian foreign trade was probably less than 60,000 tuns of the period, which are, speaking very roughly, equivalent to from 24,000 to 36,000 net tons of the present day."

† This remark is not wholly true of countries trading with India, though it may pass muster for India herself. Pepper, for example, which has been described as the "historical foundation of the direct trade between India and western Europe" (Moreland Op. cit. p. 222) was a necessity of life to all the north European countries for seasoning their meat-supply for winter use. It may also be added that tobacco, which forms such a considerable proportion of modern Indian imports, though introduced in India about 1604, (Vincent Smith's *Akbar*, p. 407) does not figure very largely in the trade of the period, probably because of its early naturalisation (Op. cit. p. 403).

‡ Moreland's *India at the Death of Akbar*, p. 142-3.

Foreign testimony, however, which people like Mr. Moreland are easily induced to accept, has been recorded to the effect that India herself manufactured large quantities of these last mentioned stuffs.* Though conceding that all the metal-ware used within the country was made there, he considers, that much of the raw material was imported. But the remark can only be accepted, if the point is conceded that transport facilities in Muhammedan India were sufficiently developed to permit considerable trade in such cheap but bulky goods. We consider the point about transport and communications below. Here it is enough to note that both Mr. Moreland and Dr. V. S. Smith incline to the view that roads in Muhammedan India were not very good.† To speak of only one metal—iron—the great demand for it only for armament purposes, including artillery since the days of the Portuguese advent, not to mention the need for agricultural and other implements, could not possibly have been met out of raw material imported from abroad. India had excelled for ages past in iron and steel goods, particularly arms and armour of all kinds. It must have been the same with regard to copper, which loomed so large in the currency system of the country throughout this period.‡

> "Of minerals other than metals the most important at this period were salt and diamonds." (op. cit, p. 151).

Salt was produced for local consumption from sources which probably have endured to this day—Sambhar lake, Punjab mines, and the sea-water on the coast. Internal trade in this article was very considerable, but it did not figure at all, either as import, like now, or as export in the foreign trade of the country. Diamonds on the other hand, being easily producible almost on the surface, the famous mines of Golkondah, which are supposed to have yielded Kohi-noor among other gems, were in full operation during the Muhammedan as during the earlier Hindu period. Tavernier, the French jeweller travelling in India in the eighteenth century, estimated the diamond production as giving employment to 60,000 men on the Dekhan mines, with another 8,000 in the Chota Nagpur mines, while Moreland estimates the total yield at 20 lakhs of rupees in the currency of the period.*

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* Wheeler, (op. cit. p. 418) basing his remarks on the testimony of Terry who accompanied Sir Thomas Roe writes: "The most important staples of the Moghul Empire were Indigo, which was manufactured in vats, and cotton wool which was made into calicoes. There was also a good supply of silk, which was made into velvets, satins and taffeties, but the best of them were not so good as those made in Italy" cp. also Vincent Smith's *Akbar*, p. 410-11. See also Mr. Moreland's own observations on p. 175.

† The "Roads, except certain great highways, were not good, and permanent bridges over even smaller rivers were rare". V. S. Smith, op. cit. p. 413: "There were no metalled roads though the main routes of land travel were clearly defined in some cases by avenues of trees, and more generally by walled enclosures known as *Sarais* in which travellers and merchants could pass nights in comparative security". Moreland op. cit. p. 6-7. Mr. Moreland says, however, "The south of India obtained copper from overseas, but the north depended on supplies locally mined, while practically the whole country had to rely on its own resources in regard to iron" (p. 147, op. cit.)

‡ One of the Currency Reforms of the great Taghlakh Emperor Muhammed aimed at the substitution of copper for more costly metals in currency. Throughout the Muhammedan period copper was quantitatively the most important currency ingredient. Iron was even exported from India in the shape of steel weapons (p. 150 op. cit.)

Along with the precious stones may also be mentioned pearls, which continued to be the staple of Indian trade in either direction all through this period. Mr. Moreland observes that

> "Indian waters had nothing approaching a monopoly of their production";†

but he concedes the well-established character of this industry, which was estimated to engage as many as 60,000 people. There cannot, of course, be any doubt that the Persian waters were productive of pearl-oysters; but quantitatively all records seem to agree the Indian, including the Sinhalese waters, trade was the most important. The consumption of pearls was very great in India itself, being used freely in dress materials and emblems of royalty.‡ But the production in quantity must have been greater still, as pearls were no doubt exported from this country all through this age and after, down to our own times. The authority we have been relying upon holds that the income derived from this industry

> "cannot have been sufficient to make a material difference to the population of the whole country",

but he adduces no argument beyond his own judgment for such a conclusion. The industry, though speculative, afforded employment to about 60,000 persons in the Ceylon and Coromandel waters alone, without mentioning the pearlfisheries in the Gulf of Cambay and of Cutch.§ And while it may have brought no income to the poor diver beyond his ordinary wages, to the merchant it certainly meant in all probability a fortune. We shall have more to say about this point later. But we may remark here that pearls, and other precious stones, though they may have figured most probably on both sides of the trade account, on a balance, pearls at least were more imported than sent out. Mr. Moreland makes no mention of other precious stones, such as emeralds, saphires, rubies, topazes, beryls, onyx, which were mentioned in the earlier trade lists. The very minute regulations, concerning the classification and perforation of these stones and their values, given in the Ain ought alone to suffice to say that trade in these must have been as well known as the art of setting them up.* If not India's native produce, the precious stones certainly afforded an excellent *entrepot* trade.

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* Op. cit. p. 152.

† Op. Cit. p. 146.

‡ Leaving out such well-known use of pearls as in the Peacock throne of Shah Jehan we may quote here two instances from a traveller, Abdul Razaak, of the XV century visiting Vijayanagara. Speaking of the King's dress he says "He was clothed in a robe of zaitun satin, and he had round his neck a collar composed of pure pearls, the value of which a jeweller would find it difficult to calculate." Or, again, speaking of the throne of the same monarch, he says "It was of a prodigious size, made of gold inlaid with beautiful jewels and ornamented with exceeding delicacy and art; seeing that this kind of manufacture is nowhere excelled in the other kingdoms of the earth. Before the throne there was placed a cushion of zaitun satin, round which three rows of the most exquisite pearls were sewn". cp. Elliot. op. cit. Vol. IV, p. 113 and 120.

§ **Both these sources, particularly the latter were worked down to our own day.**

Turning from mineral to forest produce, we find wood-work of all sorts entering in the trade, though perhaps cabinet-making of modern type was not developed. But wood-products most importantly occurring in trade must have been the Indian ships, which were built large enough to serve in their time, and before the industry was destroyed by British Navigation Laws, as ocean carriers.

> " The general attitude of authorities suggests to me",

says Moreland,†

> " That apart from the Portuguese trade to Europe, the great bulk of the commerce in the Indian seas was carried in ships built in India, and that most of these, and certainly all the large ones, were constructed on the west coast not at any one centre but at various ports, or inlets within easy reach of the forests. It is practically certain that India also built all the small boats required for the coasting trade from Bengal as far as Sind, and the aggregate volume of shipping was therefore very great when measured by contemporary standard."

Mr. Moreland is, however, more concerned to show that if ship-building in India has declined since the Muhammedan period, compensating

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* See *Ain-i-Akbari* under the Jewel office Abul Fazal says: The value of these jewels is so well-known that it is needless to mention it here. But those which have since come into His Majesty's possession are of the following rates:—

	Weight Tanka	ratee		Value of each.
Rubies	11	20	Rs.	100,000
Diamonds	5½	4	„	100,000
Emeralds	17½	3	„	52,000
Saphires	4	7½	„	50,000
Pearls	5	0	„	50,000

He does not tell us how many of each were in the jewel office. The following from Al-Biruni my also be noted "Ma'abar (which the editor of Sir H. Elliot's history identifies with the Coast of Coromandel) from Kulain to the country of Silawar extends three hundred parsangs along the shore.... ... ...Large ships, called in the language of China "junks" bring various sorts of choice merchandise and clothes from Chin and Machin, and the countries of Hind and Sind. The merchants export from Mabar *silken stuffs, aromatic roots*; large *pearls* are brought up from the sea. The productions of this country are carried to Irak, Khurasan, Syria, Rum, and Europe. The Country produces *rubies* and *aromatic grasses*, and in the sea are many *pearls*. (Elliot Vol I. p. 69) See also V. Ball's Tavernier; and the appendix to "*A forgotten Empire*" by Sewell as to the history of some leading diamonds, like the Kho-i-noor (mined by Mirjumla in 1656?) the Mughal's or Baber's (1526) the Hen's Egg &c. got by Alauddin in 1304 &c.

† Op. cit. p. 170.

industries of road-carrying vehicles and railways have been built up, and that consequently there is a large balance in favour of the present regime. He, therefore, does scant justice to this obviously great, if not the greatest, industry of mediæval India, contenting himself with the remark that the ordinary vessels were of small capacity; and that the larger ones were few in number.[*] As usual, however Mr. Moreland gives no authority for such a slighting judgment, beyond his rather exasperating "I think". One is, therefore, forced to adduce contrary evidence to show how completely an ingrained prejudice is apt to lead astray even such a most competent scholar. Thus the Sultans of Gujerat, the most advanced maritime province of India, second, if at all, in ship-building to Malabar, were in the habit of maintaining large fleets in the fourteenth and fifteenth centuries[†] and styled themselves Lords of Sea.[‡] The European traveller Nicolo Conti, mentioned by Mr. Moreland himself, says of the Indian merchants:

> " They are very rich, so much so that some will carry on their business in *forty of* their own ships, each of which is valued at *15,000 gold pieces*."[§]

A ship costing 15000 gold pieces of those days which in purchasing power would exceed a million sterling of to-day,—we can imagine the size of the ships built at such a cost. And given only a single such merchant in ports like Surat, Broach, Goa, Kalikot, Mangalore and half-a-dozen on the Eastern coast to Satgaon, we get a fleet of some 400 ships of the largest tonnage.[||] There is nothing to show that shipping had declined from the days of the Sultans of Gujerat, the Bahmani Kings of the Dekhan and the Hindu Empire of Vijayanagar to which such unprejudiced foreign testimony relates. Basing himself on the authority of the Englishman Fryer—an English Doctor of the Cambridge University, who came to India in 1673 in the employ of the East India Company, and published his observations under the title of "*A new Account of East India and Persia*" by John Fryer, M. D. in 1697—Mr. Wheeler, in his History of India, says:

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[*] Op. Cit. p. 171. "Writing in the fifteenth century, Conti had recorded the existence of ships of 1000 tons, much larger than any with which he was familiar in the Mediterranean, and the early English visitors to Western India described vessels of even greater size, second only to the huge carraks built by the Portuguese. These Indian ships were used only for the pilgrim voyage to the Red Sea, and all told there were not, I think, more than half-a-dozen of them in existence at one time."

[†] Stevenson in Kerr's Voyages XVIII, 324, giving an account of Odoric's voyage in a ship carrying 700 people.

[‡] When Humayun conquered Gujerat in 1535, he, on securing the splendid jewelled belt of Bahadur Shah of Gujerat, said "These are the equipments of the lord of the sea." op. Bayley's, *Gujerat*, p. 386 and also Elphinstone's Appendix to his *History of India* as regards the fleet of Mahmud Begada of Gujerat.

[§] India in the XV century, Hakluyt Society's Publication ii, pp. 10-27.

[||] Abdur Razaak, an Arab traveller of the XV century, says: "The King of Bijanagar has 300 sea-ports, every one of which is equal to Kalikot." op. Elliot, Vol. IV, p. 103.

"The Moghul shipping lay pretty close together in the Surat river. **Some of the vessels were more than a thousand tons burden.** Altogether there **were more than a hundred good ships,** besides smaller vessels."[*]

With such authorities to the contrary, we cannot believe Mr. Moreland to have been justified in holding that there were altogether not more than half-a-dozen such ships all through the country, we call India to-day.[†] Fleets, in Moghul wars in Sind and Bengal, of from 100 ships to several thousands were not very rare on the Indian rivers; while in the Indian ocean proper, similar, though smaller, Indian fleets often engaged in battle the Turkish, Arab and European pirates from the fourteenth century downwards. We may then conclude that ship-building was a most important industry in the Muhammedan and in the Hindu period; that in point of value it is exceedingly difficult to estimate, but could hardly have been inferior even to the most well-known, as the best established, industry in India, Cotton manufacture;[‡] and that its significance is probably obscured by the ships figuring only as "invisible exports" of India in the Muhammedan period as they did in the Hindu period.

Next after forest produce, we may notice agricultural produce as a constituent in Indian commerce. As a rule food-stuffs did not form any great proportion of the commerce of Muhammedan India—food-grains being chiefly produced for local and immediate consumption. Some grain may have been the subject of commerce for provisioning travellers or ships [§] but the amount as well as the value must have been insignificant. A food material, however, which may have entered very considerably in the Trade of Muhammedan India is *salted or dried fish*, which, besides being an important item in the food of the people in the maritime and riverain provinces, should certainly have found purchasers in ship-masters and their fellow voyagers.[||] Fish-oil was a bye-product equally valued by ships as well as for local consumption, while "the use of fish-manure was established in Gujerat when Thevenot visited Surat in 1666."[*] Speaking of the trade in animals, Mr. Moreland mentions horses,

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[*] Op. cit. vol. IV, pt. IV, p. 499.

[†] In the Sircar of Tatta alone, according to the author of *Ain-i-Akbari*, there were 40,000 boats ready for hire, large and small. One of the Indian built ships measured by the English Captain Saris in the Red Sea about 1611 was 153 ft. in length and 42 ft. in breadth, 31 ft. high and 1200 tons burden. cp. Dr. Vincent's *Commerce of the Ancients* Vol. II, p. 38.

[‡] The following guess, however, may be ventured on authorities already cited. Taking 10 ports in India of the size and trade importance of Surat, Kalikot or Satgaon, ech with fifty first rate vessels of 1000 tons each—(or greater number with a lower average burden) we get an Indian mercantile marine of 500 vessels or half a million tons for sea voyages. Taking the average cost of each such vessel at Rs. 5 lakhs of the time (a dinar is valued at 30 rupees by V. S. Smith, and a first rate ship is given as costing 15,000 gold pieces in XV century)(See ante. p33), the 500 vessels, if replaced annually, must have involved an industrial output of 2½ crores of rupees, equal, in purchasing power, to over 15 crores to-day. Including river-boats, coasting craft, pleasure boats and naval craft proper, the industry must have been still more productive.

[§] As it did in the earlier period noticed by the *Periplus*. See ante. cp. also Moreland, Op. cit. p. 157: "It is possible that a certain amount of grain was milled at Surat and other ports in connection with the provisioning of ships."

[||] "Various travellers record that its (fish) use was common in South India, and that it was sometimes dried and salted for provisioning ships." op. cit. p. 145.

> "which were required in large numbers under the prevailing military system".[†]

But he is inclined to consider the trade in horses, which were very largely imported from countries beyond the Indus, Arabia, Persia and Turkestan, to be more in the nature of a luxury trade, at least for northern India, though even he is constrained to admit the necessity, from the stand-point of national security, of horse imports in the south. The domestic production of horses is not quite so scanty as Mr. Moreland's rather slight account would lead one to imagine at first; for Abul Fazl mentions several places, amongst them Cutch [‡] as producing animals as good as the best Arabian horses, which did produce horses. Akbar had 12,000 horses for his own personal use in his private stables; and this fondness, coupled with the very wide-spread custom of including a horse in Durbar presents, required large imports even for northern India.

> "Merchants" says Abul Fazal, "bring them from the two Iraks, Room, Turkestan, Badadakshan, Shirvan, Kherghez, Tibbet and Cashmeer, and droves are continualy, arriving from Turan and Iran." [§]

If the trans-frontier trade was thus brisk in northern India, which had its own breeding places, and which nevertheless imported several thousands every year, in the south that trade was still more important, owing to the scarcity of local supply, and to the great, steady demand for purposes of war as well as of trade. As the roads south of Golconda were never suitable for wheeled traffic, horses and other pack animals were much in demand for carriage of goods and passengers. [¶] From the earliest records of foreign visitors and local observers, we find notices of horse trade from countries beyond the seas as regards the Indian region south of the Vindhyas; and the successive rulers of the Dekhan were anxious to make terms for a regular supply of foreign horses. Thus Al Biruni, one of the earliest Arab writers on India, says: [*]

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[*] Op. cit.; loc. cit.

[†] Op. cit. p. 197.

[‡] "There are fine horses bred in every part of the empire, but those of Cutch excel, being equal to the Arabs. It is said a long time ago an Arabian merchant was ship-wrecked on the coast of Ketch, and that he had seven choice horses, which are reported to have been the progenitors of the horses of that place. In Punjab are bred horses resembling Irakies, especially in that part which lies between the river Sind and Behet which is also called Sebaley. The following places also produce good horses: Putty, Hibetpoor, Bijwareh, Tehareh, Agra, Mewat and the subah of Ajmere." *Ain*, Gladwin's Translation, p. 135.

[§] Ibid p. 134.

[¶] In the wars of Hyder and Tippu, the commissariat was transported by the now famous Malnad bullocks of the trotter breed which figures even under the Vijaynagar regime. But horses were also used as pack animals.

> "M'abar is, as it were, the key of Hind. x x x x x There are no horses in M'abar, or rather those which are there are weak. It was agreed that every year Jamalud-din Ibrahim should send to the Dewar 1400 **strong Arab horses obtained from the island of Kis,** and 10,000 **horses from all the islands of Tars,** such as Kalif, Lahsa, Bahrein, Hurmuz, Kailahat etc. *Each horse is reckoned worth 220 dinars of red gold current.*"

A *dinar*, it may be noted in passing, has been estimated to be equal in value, in Akbar's time, to Rs. 30 [†]; and at that rate the trade for this portion alone would amount to Rs. 7,52,40,000 per annum. The same story is told by Wassaf some three hundred years later, who adds that the sum total of the value of the horses imported

> "was paid out of the overflowing revenues of the estates and endowments belonging to the Hindu Temples, and *from the tax upon courtezans* attached to them and no charge was incurred by the public treasury," [‡]

From the X to the XVII century, therefore, we may reasonably assume this trade to have flourished, more particularly in the south. Its volume and value, including public and private transactions, are difficult to estimate. The figure of 7.5 crores relates to the transaction with a single state. Combining north and south and given an average import of 100,000 horses all over the country, per annum, a most modest figure in view of the large armies maintained in these days—with an average value of Rs. 1000 per horse, the trade would aggregate 10 crores in value at least. * While horses figured chiefly on the import side, elephants may have been exported; but there is not much reference to that fact in the records we now have. Probably the trade in elephants, in so far as it did exist, was by the land routes only; and may have amounted to a small fraction of the horse imports. Of other animals, peacocks, apes, parrots and other birds, if exported or imported, there is no specific mention; and we may, therefore, conclude that the trade in them, if any, must have been insignificant. The land-trade, as will be more fully noticed in its proper place, even now-a-days includes an important fraction of imports of animals, though at the present day these animals have lost their old importance, thanks to the development of new means of conveyance. Camels are used as beasts of burden even now in countries on and beyond our northern and Western Frontiers; but it is doubtful if they ever figured considerably in the foreign trade of India on either side.

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[*] Cp. Al Biruni from Rashiuddin, translated in Sir H. Elliot's *History of India*, Vol. 1, p. 69. M'abar is identified in the editor's note with the Coromandel coast. Is the island of Kis the same thing as the modern province of Kutch, or Cutch ?

[†] Cp. V. S. Smith in the J. R. A. S. for 1915 on "The Treasure of Akbar," p. 238.

[‡] Elliot op. cit. Vol III, p. 33: Wassaf was a *nom de plume* signifying panegyrist. His work is considered to be a classic and certainly his description of Hind is a gem of rhetoric even as it reads in the English translation. Cp. p. 29 op. cit.

"The leaves, the bark and the exudations of the trees, the grass and the woods of that country are cloves, spikenard, aloe-wood sandal, camphor and the fragrant wood of mandal. White amber is the drugs of its sea, and its indigo and red Bakham wood are cosmetics and rouge for the face; the thorns and wormwood of its fields are regulators of the source of life, and are useful electuaries in the art of healing for the throes of adverse fortune; its icy water is a ball of mumiya for the fractures of the world; and the benefits of its commerce display the peculiarities of alchemy, the hedges of its fields refresh the heart like the influence of the stars; and the margins and edges of its regions are bed-fellows of loveliness; its mirabolans impart the blackness of the youthful hair; and its peppercorns put the mole of the face of beauty on the fire of envy: its *rubies* and the *Cornelians* are like the lips and cheeks of charming girls; its light shedding recesses are all mines of coined gold and its treasuries and depositories are like oceans full of polished gems; its trees are in continual freshness and verdure; and the zephyrs of its air are pure and odoriferous; the various birds of its boughs are sweet singing parrots, and the pheasants of its gardens are all graceful peacocks."

It may also be added here, as a matter of curiosity of Indian History, that in Vijayanagar, at the time that Abdur Razaak visited it in 1442, the police were paid 12000 fanams or *panams* a day out of the proceeds of a *tax on the prostitutes* in the city. See Elliot, Vol, IV, p. 111-112.

The other beasts, cattle, counted with agricultural production, though used for purposes of conveyance all over India, were more thoroughly used in agriculture proper. Certain special breeds, like the Malnad cattle in the South and the Gujerat cattle on the West, may have figured in the inter-provincial commerce. But for foreign export, the prejudices and necessities of the Indian people alike forbade them to export cattle. And the countries with which India was in the closest relations had by no means a surfeit of such animals as to cause their imports into this country from beyond the seas and the mountains. The only form in which cattle could be said to have formed part of the Indian trade during the Muhammedan period was, probably, in skins or raw hides. Mr. Moreland, indeed, says:—

> "It is clear that the extensive export of hides and the import of various finished articles are quite modern phenomena, and that, in the time of Akbar, India as a whole was self-contained in this branch of industry." †

But as usual he cites no authority for the remark, and we have to explain the best way we can the radical change from the earlier Indian trade. Skins as well as hides are certainly mentioned in the Hindu period, and there is no reason to conclude that the trade in this item had utterly declined; though, of course, the relatively low value of this article may have occasioned silence in respect of it. ‡

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*This is the value, as given by Pyrard and adopted by Mr. Moreland, regarding horses in Goa in the time of Akbar. That price could not have been much lower even in the north, in spite of its own breeding places, for Goa was a sea-port; while the price inland would be obviously more. Our estimate, therefore, is most moderate. According to Sessetti quoted in Sewell's "*A Forgotten Empire*," p. 210, Goanese trade with Vijayanagar alone was so valuable that the tax on the horse trade alone "produced a revenue in the city (Goa) of 120 to 150 thousand ducats, which now reaches only six thousand."

† Op. cit., p. 162

‡ Against this see Marco Polo, who, speaking of Cambay in the XIII century, says: "It produces indigo in plenty and much fine buckram; cotton is exported hence; there is a great trade in hides which are very well dressed." *Travels of Marco Polo*, Marsden's trans, & Wright's edition.

Before discussing the most important group of Indian manufactures—the textile goods—a word may be said about Sugar, which, certainly, even in Muhammedan India, occasioned some trade, and oils, which have, as unguents and perfumes, always figured in the foreign trade. But in both instances the locally produced raw material was made up into the finished article within the country itself. The trade in sugar was largely interprovincial, Bengal, Lahore and Ahmedabad being the chief centres.[*] The oil-trade was with foreign countries as well, though it is difficult to say precisely, what proportion of the Indian produce was exported. *Opium* and *Indigo*, with the *dyestuffs*, made out of the latter, were practically Indian monopolies; and figured extensively by this time as exports from India. *Paper*, on the other hand, may have been imported, but Mr. Moreland concedes:

> "I think it may be safely assumed that it was made at various places throughout northern India by the handprocesses which have not yet disappeared. The quantity used was, however, very small." [†]

Porcelain, also, and *glassware* must have been largely imported.

Historically as well as commercially, the most important item in the trade of India, however, consisted of textile manufactures of all sorts. Mr. Moreland holds:

> "Silk-weaving was a minor industry in the time of Akbar. x x x x x x Of the period about 1600 it may be affirmed that the export of manufactured goods was very small, that the home market was limited in size, and that it was supplied largely by importation of foreign goods." [‡]

But he comes to this by deliberately ruling out the testimony of his own European writers like Barbosa and Varthema, the former of whom mentions silk goods as being supplied from Gujerat to Africa and Burma; and the latter asserts that Gujerat supplied

> "All Persia, Tartary, Turkey, Syria, Barbary, Arabia, Ethiopia x x with silk and cotton stuffs" [§]

Terry, the chaplain of the first English ambassador to the court of the Mughal, expressly mentions

> "A good supply of silk, which was made into velvets, satins and taffetaes" [¶]

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[*] Cp. Moreland, p. 157

[†] Op. cit., p. 164

[‡] Op. cit. p. 172.

[§] Ibid.

[¶] Cp. Wheeler, *Hist. of India*, Vol. IV, pt. 2, p. 418, Says Abul Fazl:

"Through the attention of His Majesty, a variety of new manufactures are established in this country and the clothes fabricated in Persia, Europe and China have become cheap and plenty." Gladwin, p. 91. See also Alberuni quoted *ante* p. 36 as to the export of silk stuffs from the beginning of this period.

At Vijayanagar, Barbosa had noticed it a hundred years earlier, and Abul Fazl's detailed evidence in the Institutes of Akbar almost passes for nought. He ignores the results of his own laborious research; for he has noted in the same work, but in another place, that :

> "Dress afforded similar opportunities for expenditure, both in the quantity of garments and in the costliness of the materials employed. If we may believe Abul Fazl, Akbar took much more interest in clothes than in food; × × × × × × × his wardrobe was sufficiently large to require an elaborate system of classification, but when we read that 1000 complete suits were made up for him every year, allowance must be made for the practice of conferring dresses as a reward or distinction upon persons appearing at court. Abul Fazl distributed his entire wardrobe every year among his servants, and a variety of casual allusions indicate that a large stock of clothes was an ordinary feature of court life."*

With such an etiquette prevailing, the domestic market, though small, must have been quite paying enough to stimulate the native manufacturer, encouraged by every device of royal and viceregal and aristocratic patronage, to exert himself to the utmost; and so produce a balance for export. With such centres of production as Burhanpur, Ahmedabad, Pattan, Benares and Lahore, besides the royal capitals; with the admitted testimony of traders and travellers of the time; it is unreasonable to deny the existence of a good silk-manufacturing industry in India, serving for export as well as for domestic consumption. This does not, of course, mean that no silk-goods were imported. Raw silk bulked largely in the Indian imports in this period; and silk goods also must have contributed an appreciable proportion. The Indian exports were a historical fact, though these exports may have consisted only in part of the stuffs manufactured in India. The balance must have come from the foreign imports, which, in this as in the preceding period, must have constituted the bulk of the *entrepot* trade of India. †

As of silk, so of woollen stuffs, Moreland takes a rather gloomy view, though in this case he seems to be on firmer ground. The Indian people did not consume any great quantities of woollens, and hence probably the relative indifference to that industry. The demand for woollen clothes from the Mughal nobles may have been met by foreign imports, India not producing wool at all sufficient to speak of. Exception, of course, must be made in connection with shawls—pure wool and with silk mixture,—which were specially patronised by Akbar; * and with carpets, which were centred at Agra and Lahore in Akbar's time; but the latter were also imported largely from Persia during all this period.

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* Op. cit. p. 258.

† After considering the quantitative production of the raw material, which, on the authority of Tavernier, he takes to be 2½ million lbs. in Bengal, and taking into account the imports from China and Persia, Mr. Moreland says:—

"We may therefore put the total imports to India at not more than half a million pounds and the total consumption, imports and home production together, at about 3 million pounds of raw material as a maximum." (p. 174). On this basis even, he is forced to admit that the industry has not kept pace with the increase in population.

Of the remaining textile fabrics, we must accept Mr. Moreland's conclusion that hemp and jute manufactures, if known in the period under review, were rather used for immediate consumption by the poorer sorts of the producers themselves than formed any appreciable proportion of the local or the foreign trade of India. In the absence of packing necessity for such bulky goods as food-grains and oil-seeds, it is not surprising that all through this period and earlier, these very important trade items of to-day were almost unknown.

It thus leaves us with cotton-goods as the most important item in the trade of India. We have already quoted Pyrard's statement that

> "Every one from the Cape of Good Hope to China, man and woman, is clothed from head to foot in the products of Indian looms;"

as also the modest conclusion of Mr. Moreland that:

> "Indian looms had a practical monopoly of the home market for clothes, and in addition had three principal export markets, Arabia and beyond, Burma, and the Eastern Islands, besides minor outlets in the various other parts of Asia and on the east coast of Africa." †

No quantitative estimate of the value of cotton goods exported has been attempted by Mr. Moreland; and the omission is the more significant in contrast with his treatment of other articles of Indian production. If we are right in holding that the balance of the Indian exports over the imports was constituted mainly by cotton goods, dyed as well as plain, and the carrying services, some idea of the value of these exports will be had from a later section dealing with the wealth of India and the volume of her trade during the period under review.

X. ARTICLES OF THE FOREIGN TRADE OF INDIA.

We may, then, restate, after the foregoing brief review of industry in Muhammedan India, in a summary form, the principal items of the import and export trade of India, both by sea and overland. The information is more precise since the days of the advent of European travellers and traders, but even so a quantitative statement of the volume and value of that trade in the seven hundred years here reviewed is almost impossible. If we are to judge of it at all, we can do so only in an indirect manner; and an attempt of that nature is made below.

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* Says Abul Fazl: "By the attention of His Majesty the manufacture of shawls in Cashmere is in a very flourishing state, and in Lahore there are upwards of a thousand manufactories for this commodity." Gladwin, p. 96.

† Moreland, Op. cit., p. 181.

List of the principal Imports and Exports.

Imports :

Metals :	Gold, Silver, Copper, Tin, Zinc, Lead, Quicksilver,
Animals :	Horses.
Food-stuffs :	Wines, Fruit, Tobacco, Spices,
Raw Material:	Silk,
Manufactures :	Porcelain, Glassware, Silk-goods, Woollen goods, Carpets, Paper,
Miscellaneous:	Pearls, Precious stones, Slaves,

Exports :

Food-stuffs :	Spices : Pepper, Cloves, Cinnamon, Cardamum, Amber, Camphor.
Fish Rice Flour	Provisions for ships.
Manufactures :	Cotton goods Iron goods : Tools, Arms, Armour, Cutlery, Silk-goods, Shawls, Wooden goods :— Ships Wood-work Oils and unguents Medicinal drugs Ivory work Leather goods
Special Products :	Opium, Indigo and dyes, Precious stones: Pearls Diamonds Rubies Emeralds Saphires Beryls Onyx. Sandal-wood. Aloe-wood. Saltpetre.
Animals :	Elephants. Camels. Some rare birds.
Miscellaneous :	Myrabolans Coral Tortoise shells.

Reference has been made to almost all of these articles in the previous review of the Indian industry; and here we need only add that some of the articles, like pearls or spices, figuring on both sides of the list, is due to the existence of a considerable *entrepot* trade in these articles, or that the balance remains on the side of exports. *

XI. VOLUME OF INDIAN COMMERCE.

Dealing next with the volume of Indian trade, Mr. Moreland estimates it at about 25000 tons with countries on the West about the time of which he writes, and 27000 on the East.

> "I think this is an over-estimate; but in any case, taking east and west together, and reckoning the commerce on the islands of both sides of the peninsula, the total volume of Indian foreign trade was probably less than 60,000 tuns of the period, which are, speaking very roughly, equivalent to from 24000 to 36000 *net* tuns of the present day"†

It is impossible to accept this estimate. Mr. Moreland's method of estimating is impossible to endorse. Arguing from the existence of monsoon currents in the Indian waters, which must certainly be admitted to have limited the period of active trade,—though that limit need not be quite as low as Mr. Moreland puts it‡—he considers the average capacity of

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* Mr. Moreland's summary of Imports and Exports is different. According to him:—

Imports:	*Exports*:
Gold,	Textile fabrics,
Silver,	Pepper,
Horses,	Spices,
Raw Silk,	Dyes,
Copper,	Opium,
Tin,	Drugs.
Zinc,	
Lead,	
Quicksilver,	
Ivory,	
Coral,	
Amber,	
Precious Stones,	
Silks,	
Velvets,	
Brocades,	
Spices,	
Perfumes,	
Drugs,	
China Goods,	
African Slaves.	

We have already explained the discrepancies, such as they are, in the previous pages. The only item that need be noticed here is the mention of slaves. Arab and European traders may have dealt in this traffic and the existence of an Abyssinian party against the Dekhanies in the Muhammedan Kingdoms of the South must be taken to be an indication of the existence of this traffic. But it is still free from the systematic, organised traffic of the Europeans with the Americans in negroes.

† Op. cit. p. 237.

‡ Op. cit. p. 228.

the vessels engaged in European trade; and from these deduces the above conclusion. But the data he proceeds upon are either non-existent,—and therefore the inference is no better than an unsupported estimate;[*] or relate only to isolated experiences of individual pirates, like Middleton in 1611–12 or travellers like Jourdain. Even without impeaching the veracity of their statements, or the accuracy of their observation, the argument may be advanced that the trade they saw need not necessarily be the whole trade of India with the countries concerned. On the other hand, there is positive testimony to show that Indian trade must have been far more voluminous during this period. Mr. Moreland is aware of the horse-trade by sea with the kingdoms of the south; but dismisses that point by the single observation that it was less important in the period he considers. The Dekhan kingdoms were, if anything, more intensely engaged in their endless struggles in the XVI century than before. Until the rise of the Mahratta introduced and popularised the mountain pony of the Dekhan highlands for cavalry use in the XVII century, the horse trade alone—taking it only at 100,000 animals imported during the year on state as well as private account at all the ports beginning with Cambay southwards—would have taken up a good proportion of the tonnage Mr. Moreland assigns to the Western trade. And then there is the evidence, already adduced, of considerable shipping in the best Indian harbours.[†] Without pressing too far the statement of Conti about individual Indian merchants trading in their own vessels, each costing 15000 gold pieces and numbering as much as 40[‡]; without insisting unduly upon the evidence of the wealth at Vijayanagar, which could not possibly have been derived except from commerce on a large scale, we may at least mention of the testimony of English observers—like Terry or Fryer—in the XVII century-as regards the ships in a harbour like Surat. If Surat alone could have, as stated by such authorities, a hundred ships at a time in its river[†] is it any violence to one's sense of logic or historical perspective to assume that, with similar equippage at Lahori Bunder, Diu, Cambay, Broach, Chaul, Goa, Mangalore, Bhatkal, Calicut, Nagapatan, Masulipatan, Madras, Hooghly, Satgaon, Colombo—to mention only the most important harbours of mediæval India[‡]—the sea-going ships of Indian origin and ownership alone must have exceeded 1000 in number at the most modest estimate. Giving these an average burden of 500 tons and only a single voyage in a year, the volume of trade could not possibly be under half a million tons a year; and, including foreign ships—Arabs particularly—it very probably must have been more than double that amount during all these years.

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[*] "I have found no data for the volume of Indian trade with Arabian coast and Ormuz at this period." op. cit. p. 234. And yet the Arabs were great merchants and sailors before the advent of the Europeans, and, remaining so, did a large trade with India, Arabia and Africa.

[†] See ante. These are all large ships, and those belonging to the Moghul only—or the people of the place. It does not refer to non-Indian ships, Arabs and Turks and Europeans of all sorts.

[‡] In his work on Vijayanagar, Sewell mentions in that Empire alone 60 parts: cp. p. 198 "*A Forgotten Empire.*" Abdur Razaak mentions 300 harbours in that empire, a hundred years earlier 1442; see ante.

We can indicate the volume of this trade, and more particularly the value of that commerce, by another means. Speaking of Indian exports Mr. Moreland himself observes:

> "She was eager to sell every kind of produce, and her insatiable appetite for precious metals rendered trade a simple matter for customers who came with money in their hands."

From the days of Pliny at least there is a continuous story of India obtaining the annual balance of trade in her favour in the shape of gold and silver. India may have produced, and in remote ages, did produce, gold and silver herself; but in the period we are reviewing, India was steadily an importer of these metals and did not produce any considerable quantities of these metals within her own frontier. The stores of gold accumulated by this means ought to give an idea of the volume of this commerce. Without going back to the time of Mahmud of Ghazny, whose plunder of India was reckoned in thousands of maunds, let us consider only the following well-authenticated historical facts. Ferishta, the Moghul historian of the time of Akbar, speaking of the first invasion and conquest of the Dekhan by Malik Kafur under Alaud-din Khilji, says that the conqueror on his return from the Dekhan presented his sovereign Alaud-din

> "312 elephants, 20,000 horses and 50,000 mans of gold, several boxes of jewels and pearls, and other precious effects."*

The gold alone has been estimated by Mr. Sewell in an appendix to his work on "*A Forgotten Empire*" at 15,672,900 lbs. equal, at 85 shillings per oz. to about £ 106,26,96,000 in value. This was the story of a single present to the king by his general after a single raid. A more stable account of the wealth of the Dekhan alone may be had from the story of Vijayanagar a hundred years and more after the invasion of Kafur. Abdur Razak, the Arab traveller already quoted, writing in 1442, says:

> "When the celebration of the *Mahanavi* was over, he [the king] sent for this humble individual [the writer] one evening at the time of prayer. On arriving at the palace I saw four stages laid out about ten yards square. *The whole roof and walls of the apartment were covered with plates of gold inlaid with jewels. Each of these plates was about the thickness of the back of a sword, and was firmly fixed with nails of gold.* On the first stage the king's royal seat was placed. This was formed of gold and was of large size." †

Measuring this apartment at 900 square feet, the ceiling alone, without including the walls, must consume immense quantities of gold.

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* Cp. Ferishta

† Elliot vol. IV p. 120.

Poes, the Portuguese traveller quoted in Sewell* recounts the same marvels at the Vijayanagar court about a century later. Speaking of the princes of Vijayanagar defeated at Talikota by the allied Muslim kings of the Dekhan, Mr. Sewell writes:—

> "Within a few hours these craven chiefs hastily left the palace, carrying with them all the treasures on which they could lay their hands. *Five hundred and fifty elephants laden with treasure in gold*, diamonds and precious stones, valued at more than a hundred million sterling, and carrying the state insignia and the celebrated jewelled throne, of the kings, left the city under convoy of bodies of soldiers who remained true to the crown." †

This would mean 25,000 maunds of gold at least, giving only half the treasure as consisting of gold. Forty years later Akbar's treasure was reckoned in coined gold alone, at 40 million sterling in the six principal treasuries of his Empire. ‡ We have not included in this the disasters like that of Nadir Shah of Persia, or Ahmed Durani, which are outside the sphere of our review. But the instances given above would suffice to show that the gold which was so abundant in India as to be measured by the thousand maunds could not have come to the country except as a result of favourable trade balance,—a trade balance, be it noted in passing, brought about not by the complicated network of harassing regulations which distinguished the Colbertiste regime in Europe of the XVI and XVII centuries

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* Op. cit. especially pp. 282 et seq.

† Sewell op. cit. p. 206.

‡ V. A. Smith's *Akbar* p. 347. The following inventory of Akbar's Treasure is from Dr. V. A. Smith's article on that subject in the Journal of the Royal Asiatic Society for 1915 [and not 1914 as Dr. Smith says on p. 474 of his monograph on Akbar] pp. 231–43.

Details of Treasures of Akbar op. cit. 240.

1.	Gold coins	Rs. 9,75,80,000⅓
2.	Silver coins or Akbari rupees	,, 10,00,00,000
3.	Bronze coins	,, 7,66,666
4.	Diamonds, rubies, emeralds, sapphires pearls and similar gems	,, 6,05,20,521
5.	Wrought gold including jewels	,, 1,90,06,745
6.	Golden furniture, vessels of every kind, images of elephants, horses, camels and similar animals made of gold	,, 95,07,992
7.	Wrought silver e. g. goblets, dishes, candlesticks, columns and other utensils	,, 22,25,838
8.	Brazen vessels and furniture of every kind and fashion	,, 51,225
9.	Most elegant vessels of every kind in Porcelain	,, 25,07,747
10.	Cloths interwoven with gold and silver from Persia, Turkey, Gujerat and Europe ; also silks of various kinds ; with cotton goods from Bengal and other provinces	,, 1,55,09,979
11.	Woollen cloths, European, Persian and Tartar	,, 5,03,252
12.	Tents, hangings, umbrellas, rugs and all things needed for the adornment of houses or for camp use	,, 99,25,545
13.	Books written by great men and adorned with extremely valuable bindings	,, 64,63,731
14.	Engines of War, mortar, balls and gun-powder as well as other military material	,, 85,75,971
15.	Weapons, shields, swords, daggers, bows, arrows and the like	,, 75,55,525
16.	Harness	,, 25,25,646
17.	Housings, cloaks and Royal Arms	,, 50,00,000
	Total Rs....	34,82,26,383⅓

[Not 34,82,26,664⅔, as is given by Dr. Smith] but by the ingrained peculiarity of Indian industry. As far as the state was concerned, the Government taxed exports and imports impartially, the most enlightened of the rulers often remitting the more harassing forms of taxation. Under Akbar, Abul Fazl writes[*]:—

> "His Majesty from the excess of his beneficence has remitted duties in this department (customs at sea-ports) that equalled the revenues of a *kingdom. Nothing is now exacted upon exports and imports excepting a trifle taken at the bundars (or ports) and which never exceeds two and a* half per cent; and this demand is so inconsiderable that merchants account this reduction a perfect remission."

He had also reduced the excise duties on domestic manufactures to 5% from 10%[†]. And Akbar was not alone in these wise measures, for a hundred years and more before him, Abdur Razaak had recorded of the Vijayanagar practice of charging the same low rate of duties on foreign imports at Calicut.[‡]

With practically no state regulations of a bullionist tendency, if the country could still show such large hoards of gold, the conclusion is inevitable that the supply came as the result of that peculiarity of our trade which has remained almost unbroken since the days of Pliny. If the Roman Empire alone sent to India a million sterling every year, as Pliny says,[§] as the value of her favourable trade balance, it is not difficult to believe that in the sixteen hundred years ending with the death of Aurungzebe India must have got from her trading neighbours some 1600 million sterling worth of gold, a statement which it is not impossible to corroborate, from accounts of gold stores found in our past history, or from the trading ventures of individual merchants.* **The national trade could not have been much under 50 crores in both directions, and was probably near 100.**

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[*] *Ain-i-Akbari* Gladwin's translation p. 233. Akbar remitted in all 13 taxes viz:—

(1) Jezyeh, (2) Meer Behry, (3) Kereea, (4) Gawshemary, (Ox tax), (5) Sirdeukhty (of trees), (6) Pesheush (Presents), (7) Ferukh Aksam Pisheh (Workman's Poll Tax), (8) Darogaueh, Tesuldary, Fotedary, (9) Wejeh Keryeh, (10) Sheraffy, (11) Hasul Bazar, (12) Nekas (sale of cattle tax) p. 288 Op. cit.

[†] Op. cit. p. 287.

[‡] Calicut at that date seemed to have had what we would nowadays call a system of bonded warehouses, for otherwise the following passage from Abdur Razaak would not be quite intelligible: "Kalikot is a perfectly safe harbour, and like that of Hormuz brings together merchants of every city and every country. × × × × Such security and justice reign in that city that rich merchants bring to it from maritime countries large cargoes of merchandise which they disembark and deposit in the streets and market places, and for a length of time leave it without consigning it to any one's charge or placing it under a guard. The officers of the custom-house have it under their protection, and night and day keep guard round it. If it is sold they take a customs duty of two and a half percent, otherwise they offer no kind of interference." (Elliot Vol. IV, p. 98–99). Kalikot, we must add, was a city-state independent of Vijayanagar; but the practice was too common not to have been accepted in that Empire and its competing harbours.

[§] See ante.

XII. TRANSPORT, COMMUNICATIONS &c.

One more reflection may be added here to complete this brief survey. The aids to trade in the shape of fiscal measures were all conceived in the spirit of utmost freedom. The currency system was more than once reformed and regulated, and came to be pretty nigh standardized for the whole country with the rise of the Moghul Empire. Means of transport were, perhaps, not developed so extensively as is the case in an era of railways. But writers like Moreland are apt to ignore or undervalue the significance of such facts of history as that, the Moghuls, like the Romans, were a great military power; and for military reasons if nothing else, they must have required a well-planned system of trunk roads. As a matter of history such roads did exist.† And the defect in roads—a counterpoise to the modern Railway—was remedied by the much greater attention paid to river navigation on the Indus and the Punjab system as well as on the Ganges and the Bengal system. The Dekhan may have been deficient in roads and poor in river navigation, chiefly because of the physical character of the country. But even such an aid to commerce as the postal system was begun or developed in Muhammedan India, and almost perfected under the Mughals.‡ Altogether, then, the trade of India during the six or seven centuries of Muhammedan rule continued at least as active and profitable as it had been under the Hindu regime from the earliest times.

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* *The Early Records of British India* by T. J. Wheeler—mention the cases of three ships of Surat—two privately owned and one belonging to the Emperor Aurunzebe—pirated in 1691, one of which had 9 lakh of hard cash on board and the other 52 lakhs. Given only a net trade balance brought by each ship a year of one lakh, the total Indian mercantile marine would account for a balance of 10 crores.

† Cp. T. J. Wheeler, that *of India*, p. 469 writing on the authority of Tavernier.

‡ "One remarkable institution was that of foot posts, who carried letters faster than horsemen. At the end of every six miles on a line of route there was a little hut, and men were always there in readiness to run a stage. When a runner reached a hut he threw the letters on the ground, as it was a bad omen to give them into a messenger's hand. The next appointed runner picked them up and carried them to the next stage; and in this way letters could be sent over the greater part of the Mughal Empire. The high ways in India were mostly known by the trees on either side. In the absence of trees, a heap of stones was set up at every five hundred pace; and the people of the nearest village were bound to keep the heap white-washed, so that when the nights were dark and stormy, the post runners might not lose their way." Wheeler, op. cit. p. 470.

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XIII. TRADE OF INDIA IN THE EIGHTEENTH AND NINETEENTH CENTURIES.

As we approach nearer our own times, the discussion of the subject becomes more complicated. The perspective becomes dimmed or blurred by the very wealth of information we can command. Political factors assume an importance, which, though not utterly unknown in the previous era, seems to be smoothed down by distance which may veritably be regarded as lending enchantment to the view. Even the merely economic factors are confused owing to the occurrence of a revolution, that originated in countries outside our own; but whose repercussions are being felt even now amidst us. The study is, therefore, at once more interesting and more difficult. As, however, the new elements, have, in course of time, become more and more stressed, till the organisation and general character of the trade and industry of India have been practically revolutionised beyond recognition, our study would not suffer at all in point of utility if we confine it only to the present age. And were there no other reason for this course of procedure, we may regard the possibility of reliable statistical evidence for the years of the current century as decisive. *

Leaving the detailed study of our Trade and its adjuncts to the body of this book, we may observe, in this section of the Introduction, that during the seventeenth century the political unsettlement in the country was greater than at any point in the past history; and the consequent reaction on the disorganisation of industry and commerce was large in proportion. The very perfection of the Mughal Imperial organisation made its break, when it did come at the death of Aurangzebe after a hundred and fifty years of existence, more intolerable. Had the break-up of the Mughal Empire been immediately replaced by the success of the Rajputs, or the Mahrattas, or even any of the European foreigners who were just then coming into some prominence, the damage to the trade and industry would not have been so great. As it was, while internally production had to be automatically and voluntarily restricted to the lowest possible limits, for the simple reason that the producer had no guarantee of any surplus being of real benefit to himself, † externally, the rivalries of the Arabs with the Europeans, and of

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* Fairly good statistical information is available from 1840 downwards—a date with which commenced the compilation of the statistical abstract. For a still earlier period good information is to be found in the Parliamentary inquiries at each renewal of the Company's Charter from 1773 to 1853 at every 20 years. But the decisive reasons for the summary disposal of the earlier period and for the concentration of our study to the latest age are:—(1) The imperfection of the transitional character of the new elements. (2) The existence of other motives besides purely economic considerations. (3) The uncertainties of currency and therefore of valuations.

† The methods, also, of production which were forced upon industrial workers in the XVIII century were not calculated to stimulate it in the least. Dr. Buchanan in his journey through Southern India often mentions the system of advances to weavers by the Company's commercial agents or residents in each district, which were regarded as binding on the weaver to work for the Company alone, and at rates which were indistinguishable from starvation wages. And later on came other motives which have been discussed a little more fully below.

the Europeans inter se, made the entire trade of the country hoplessly demoralised. Political considerations alone dominated the scene; and it is, therefore, not possible to resume and recount a connected story of Indian trade till we have passed this black century of unredeemed failures.

If we may reasonably date the commencement of the British Empire in the first quarter of the last century, when Tippu Sultan in the South and the Peshwa in the West, centre and north had been destroyed, when the surviving native powers, like the Nizam and the Scindia, were fast degenerating into being soulless and thoughtless tools of their foreign masters; the history of Indian trade may indeed be resumed with some show of homogeneity and continuity. But by this time newer motives had already made themselves manifest. The successful gamblers for the trade and sovereignty of India were now planning for a total destruction of the very basis on which that trade had rested for untold centuries. While in the previous century, the importance acquired, by such freaks of fortune as the Battle of Plassey, was utilised to minister to private greed * and to improve the Company's Investment, in the succeeding century, the consciousness of political supremacy was used by our English conquerors, to annihilate by means of political weapons, our inherent trading superiority. The Investment itself was an injustice. † But the Investment was derived from political profits and employed for the purchase of Indian commodities. In the nineteenth century, however, thanks to the development of the industrial revolution and mechanical production in Britain, the outlook changed completely. The inquiry at the Charter Renewal in 1813 is replete with questions as to the capacity of India to absorb the machine made British goods; while the British Statute book is too eloquent of the British determination to shut out Indian manufactures from Britain to require any further comment from us. The following are specimens.

In answer to an inquiry of the kind mentioned, Sir Thomas Munro, of the Madras Revenue celebrity, pointed out that agricultural wages in India averaged 4/- to 6/- a month, while the cost of subsistence was between 18/-

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* The story of the quarrel with Mir Jaffer and Mir Kassim in Bengal on the question of the Transit Duties is too well known to be repeated here.

† Ethics, of course, had officially no place in the recognised school of classical English economists; and consequently we have no right to make the injustice of the Investment a reproach. Here is a definition of the Investment: "A certain portion of the revenues of Bengal has been, for many years, set apart in the purchase of goods for exportation to England. The greatness of this Investment has been the standard by which the merit of the Company's principal servants has been too generally estimated; and this main cause of the impoverishment of India has been generally taken as a measure of its wealth and prosperity." Ninth Report, 1783 p. 54. This is how Parliament defines it in a Resolution in 1813. "The whole or part of any surplus that may remain of the above described rents, revenues and profits after providing for the several appropriations, and defraying the several charges before mentioned, shall be applied to the provision of the Company's Investments in India, in remittances to China for the provision of the Investments there, or towards the liquidation of debts in India, or such other purposes as the Court of Directors, with the approbation of the Board of Commissioners, shall from time to time direct" Cp. Dutt. *Economic History of India* Vol. I. p. 268.

and 27/- a head per annum. This left no probability for an extension of the sale of British woollen goods in India, the more so as the people were in the habit of manufacturing their own coarser woollen requirements.*

And as regards the action of the state, the British Government, ever since it became aware at the close of the eighteenth century, that British *manufactures, thanks to the new changes, could compete with Indian* products, and forced to stringent measures probably by the continental system introduced by Napoleon, laid down a scale of duties against which no mere excellence in manufacturing skill could succeed. While the Indian Government was still pursuing the Mughal plan of low duties for the development of trade † the British Government had imposed duties ranging from 10% to over 70% where the Indian goods were not absolutely prohibited, as happened in many instances, and as is borne out by the following table of duties levied in England at different dates ‡

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* Cp. Minutes of Evidence &c. on the Affairs of the East India Company (1813) pp. 88-89, His answer to a question re, the civilisation of India, is worth quoting: "I do not understand what is meant by the civilisation of the Hindus; in the higher branches of science, in the knowledge of the theory and practice of good Government, and in education, which by banishing prejudice and superstition opens the mind to receive instruction of every kind from every quarter, they are much inferior to Europeans. But if a good system of agriculture, unrivalled manufacturing skill, a capacity to produce whatever can contribute to convenience or luxury, schools established in every village to teach reading, writing and arithmetic, the general practice of hospitality and charity amongst each other, and above all a treatment of the female sex full of confidence, respect and delicacy, are among the signs which denote a civilized people, then the Hindus are not inferior to the nations of Europe; and if civilisation is to become an article of trade between the two countries, I am convinced this country (England) will gain by the Import cargo." (Ibid. pp. 124)

† The following duties were levied in India in 1852 under a series of laws:—

Books (British)	Free	Metals Foreign	10%
„ (Foreign)	3%	Beers ale &c, ...	5%
Coffee	7½%	Salt	5/- per maund.
Cotton and Silk goods			
„ British	5%	Spirits...	3/- a gallon
„ Foreign	10%		
Cotton thread &c.		Tea	10%
„ British	3½%	Wines & Liquors	2/-a gallon
„ Foreign	7%	Woollen	
Horses & animals	Free	British	5%
Marine Stores		Foreign	10%
„ British	5%	Manufactures	5%
„ Foreign	10%	Articles not named	3½%
Metals, British	5%		

Cp. Dutt. *India under Victorian Age* p. 157.

‡ Cp. Dutt's *India in the Victorian Age.* p. 294.

	1812.	1824.	1832.
	Per Cent. on Value.	Per Cent. on Value.	Per Cent. on Value.
Ornamental cane work...	71	50	30
Muslins ...	27⅓	37½	10
Calicoes ...	71⅓	67½	10
Other cotton manufactures ...	27⅓	50	20
Goat's wool shawls ...	71	67½	30
Lacquered ware...	71	62½	30
Mats ...	68⅓	50	20
Raw silk ...	£2, 13s. 4d. on value *plus* 4s. per lb.	4s. per lb.	1d. per lb.
Silk manufactures	Prohibited ...	Prohibited ...	20 per cent. on value
Taffatees or other plain or figured silk ...	Prohibited ...	Prohibited ...	30 per cent. on value
Manufactures of silk ...	Prohibited ...	Prohibited ...	20 per cent. on value
Sugar (cost price about £1 per cwt). ...	£1. 13s. per cwt.	£3. 3s. per cwt.	£1. 12s. per cwt.
Spirits (Arrack) ...	1s. 8d. per gallon *plus* 19s. 1½d. excise duty.	2s. 1d. per gallon *plus* 17s. 0¾d. excise.	15s. per gallon.
Cotton wool ...	16s. 11d. per 100 lbs.	6 per cent.	20 per cent.

The free Trade leanings of Huskisson and his succesors asserted themselves when English industry had already become too strong to be hurt by a 5% or 10% difference; and when they were too late to do any good to the decaying industry of India. No wonder that under this regime, the trade of India declined, though the decline was for a long time concealed by the mere growth in volume. The mere values of imports and exports may show a rise, without, however, that gross increment actually bringing to the people a net benefit. The following table gives one chapter of the tale :—

It relates to the exports of Indian goods from the port of Calcutta, and imported into the United Kingdom. With the exception, perhaps, of indigo and dye manufactures, the manufactures of India steadily fell off from their former centuries' old place in our Exports schedule; and the blank was filled in by the increase in the value as well as the volume of exports of raw material. Conversely, for the first time in ages, the Imports schedule began to show the steadily increasing importance of foreign manufactures. We shall analyse more fully in the following pages the real significance of these figures, or of these new features in the Trade of India, and show if they really imply any real improvement in the ability of the people. Here we need only warn the reader against accepting too light-heartedly the apparent significance of quantitative improvement in the foreign trade as shown, for example, by the following.

Year.	Cotton.	Cotton piece-goods.	Silk.	Silk. piece-goods.	Lac and lac-dye.	Indigo.
	Bales.	Bales.	Bales.	Bales.	Maunds	Chests.
1800	506	2,636	213	Figures not given.	Figures not given.	12,811
1801	222	6,341	238			9,928
1802	2,072	14,817	400			8,694
1803	2,420	13,649	1,232			12,986
1804	602	9,631	1,926			18,339
1805	2,453	2,325	1,327			13,486
1806	7,315	659	1,689			17,542
1807	3,717	1,686	482			19,452
1808	2,016	237	817			16,622
1809	40,781	104	1,124			8,852
1810	3,477	1,167	949			13,264
1811	160	955	2,623			14,335
1812	...	1,471	1,889			13,703
1813	11,705	557	638			23,672
1814	21,587	919	1,786			16,544
1815	17,228	3,842	2,796			26,221
1816	85,024	2,711	8,884			15,740
1817	50,176	1,904	2,260			15,583
1818	127,124	666	2,066			13,044
1819	30,683	536	6,988	468		16,670
1820	12,939	3,186	6,805	522		12,526
1821	5,415	2,130	6,977	704		12,635
1822	6,544	1,668	7,893	950		19,751
1823	11,713	1,354	6,357	742	14,190	15,878
1824	12,415	1,337	7,069	1,105	17,607	22,472
1825	15,800	1,878	8,061	1,558	13,491	26,837
1826	15,101	1,253	6,856	1,233	13,573	19,904
1827	4,735	541	7,719	971	13,756	30,761
1828	4,105	736	10,431	550	15,379	19,041
1829	...	433	7,000(?)	...	8,251	27,000?

	Total Imports.	Total Exports.	Balance.
1834-5	£ 6,154,129	£ 8,188,161	+ £ 2,034,032
1835-6	,, 6,928,312	,, 11,214,604	,, ,, 5,714,292
1836-7	,, 7,573,157	,, 13,504,117	,, ,, 5,930,960
1837-8	,, 7,672,572	,, 11,583,436	,, ,, 3,910,864
1838-9	,, 8,251,596	,, 12,122,675	,, ,, 3,871,079
1839-40	,, 7,776,501	,, 11,333,268	,, ,, 3,556,767
1840-1	,, 10,202,193	,, 13,822,070	,, ,, 3,599,877
1841-2	,, 9,629,900	,, 14,340,293	,, ,, 4,710,393
1842-3	,, 11,046,894	,, 13,767,621	,, ,, 2,720,727
1843-4	,, 13,612,475	,, 17,999,553	,, ,, 4,387,078
1844-5	,, 14,506,537	,, 17,697,052	,, ,, 3,190,515
1845-6	,, 11,583,438	,, 17,844,702	,, ,, 6,261,264
1846-7	,, 11,836,586	,, 16,069,307	,, ,, 4,232,721
1847-8	,, 10,571,008	,, 14,738,435	,, ,, 4,267,427
1848-9	,, 12,549,307	,, 18,628,244	,, ,, 6,078,937
1849-50	,, 13,696,696	,, 18,283,543	,, ,, 4,586,847

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[1] Evidence taken before the Commons' Committee, 1832, vol. ii., Appendix 31.

	Total Imports.	Total Exports.	Balance.
1851	£ 15,370,598	£ 18,705,439	+ £ 3,334,839
1852	,, 17,292,549	,, 20,798,342	,, ,, 3,505,793
1853	,, 16,902,240	,, 21,519,863	,, ,, 4,617,623
1854	,, 15,994,613	,, 20,778,435	,, ,, 4,783,822
1855	,, 14,770,927	,, 20,194,255	,, ,, 5,423,328
1856	,, *25,244,783*	,, *23,639,435*	,, ,, *1,605,347*
1857	,, *28,608,284*	,, *26,591,877*	,, ,, *2,016,407*
*1858**	,, *31,093,065*	,, *28,278,474*	,, ,, *2,814,591*

While these figures show a growing volume of our foreign trade, it would be a mistake to deduce from them alone that the fundamental character of this trade had remained unaltered; and that the prosperity resulting from such trade development was proportionately substantial. It is the aim of the following pages to exhibit by analysis the true character of modern Indian trade, and place it in its proper perspective; we need not, therefore, dilate here much upon this subject. But we may point out that while these figures display a steady excess of exports in all the years, with the exception of the 3 years affected by the so-called Indian Mutiny, the excess is by no means to be regarded as the net gain of India from this trade. The figures, it must be observed, are totals including merchandise as well as Treasure imported and exported. The balance of excess exports must therefore be accounted for either by the so-called "Invisible Imports"—of which more hereafter—or by a net drain to that extent from the country. In the time of the East India Company, and while its trading monopoly lasted, there was no nonsense about "Invisible Imports" in this regard. For the balance represented the Company's Investment plainly and simply.

> "Numerous fleets of large ships, loaded with the most valuable commodities of the East, annually arriving in England in a constant and increasing succession, imposed upon the public eye, and naturally gave rise to an opinion of the happy condition and growing opulence of a country whose surplus productions occupied so vast a space in the commercial world. This export from India seemed to imply also a reciprocal supply, by which the trading capital employed in those productions was continually strengthened and enlarged. *But the payment of a tribute, and not a beneficial commerce, were this specious and delusive appearance*" †

If this was the true description of the real character of the Indo-British trade in 1783, when the Company had yet acquired no extensive sovereignty in India, when its Investment averaged about a million and a half sterling per annum; when the Indian manufactures were still, despite all obstacles, flourishing enough to hold their own in European markets notwithstanding the heavy cost of carriage; when England had not yet started leying duties on Indian goods "varying from 10 to 20, 30, 50, 100, 500 and 1000 per cent;"* the situation must necessarily be held to have aggravated very much more in the following three quarters of a century, when the excess of exports averaged over £ 4 million; when Britain had definitely and deliberately embarked upon and maintained for half a century a policy of extinction of industries in the East Indies almost in the same way as they had decided upon annihilating the aborigines in the West (American Indians); and when our industries had in consequence decayed and been lost.

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* These figures have been taken from R. C. Dutt's *India in the Victorian Age*, pp. 158-60, as they stand. Earlier figures from 1814 are found in the Parliamentary Committee's Report in 1830. The trade figures are at all important from 1813 when the company's monopoly was broken; and from 1834 when trade was separated from political sovereignty; so the figures could be studied more independently.

† Ninth Report 1783, p. 54

> **"It is a curious calculation to allow, that estimating the sums of money drawn from British India for the last thirty years at three millions per annum, it amounts, at 12 per cent. (the Indian rate of interest), compound interest, to £ 723,997,971; or if we calculate it it at two millions per annum for fifty years, the abstraction of fructifying capital from Hindustan amounts to the incredible sum of £ 8,400,000,000."** †

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* Op. answer to question Nos. 3877-79 by Mr. Montgomery Martin to a select Committee of the House of Commons in 1840, presided over by Lord Seymour.

† Montgomery Martin in answer to Question 4137 Ibid.

PART II.

The Trade of India.

Chapter I

THE VOLUME OF TRADE.

XIV. TRADE STATISTICS.

The subjoined Table would give an idea of the growth and present day volume of the trade of India. *

Value of Merchandise and Treasure, and Gold separately, during fifty-six years.

(In lakhs of Rupees)

	Merchandise.		Treasure	Gold.
	Imports	Exports	Net imports	Net imports
	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)
Quinquennial average-				
1864-65 to 1868-69	31,70	55,86	15,82	5,83
1869-70 to 1873-74	33,04	56,25	6,67	3,07
1874-75 to 1878-79	38,36	60,32	7,05	63
1879-80 to 1883-84	50,16	79,08	10,33	4,12
1884-85 to 1888-89	61,51	88,64	11,98	3,08
1889-90 to 1893-94	70,78	104,99	14,24	2,10
1894-95 to 1898-99	73,67	107,53	8,49	2,25
1899-1900 to 1903-04	84,68	124,92	14,36	6,18
In the year 1904-05	104,41	157,72	22,97	9,70
„ 1905-06	112,11	161,84	16,18	46
„ 1906-07	117,29	177,03	38,86	14,85
„ 1907-08	136,65	177,48	36,83	17,37
„ 1908-09	128,79	153,14	16,42	4,35
„ 1909-10	122,65	187,98	31,12	21,68
„ 1910-11	133,70	209,96	32,61	23,98
„ 1911-12	144,05	227,99	43,09	37,75
„ 1912-13	166,63	246,22	51,20	34,00
„ 1913-14	191,31	249,01	36,36	23,33
„ 1914-15	144,93	182,17	16,52	7,64
„ 1915-16	138,17	199,48	3,71	—1,11(*b*)
„ 1916-17	160,25	247,36	32,03	13,24
„ 1917-18	164,35	244,90	44,22	25,18
„ 1918-19	188,56	255,32	62,36	—5,56(*b*)
„ 1919-20	221,70	332,76	64,56	35,33
„ 1920-21	347,14	265,93	8,42	2,11
„ 1921-22	270,40	248,65	10,01	—2,86(*b*)
„ 1922-23	182,89	221,20	......	...

NOTE.—(*b*) Net exports.

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* **These figures it must, be noted, include the statistics relating to Government transactions in respect of stores imported and exported, as well, as Treasure, in their appropriate column. The figures for the latest year are for the first nine months of the fiscal year only, as published in the *Capital*, February, 8,1923.**

A total trade of between 500 and 600 crores per annum is negligible quantity, though, viewed in proportion to the population figures shrink very much as compared with some other countries. following table gives relative statistics of the trade of other coun and their population.

(continued from p. 55.)

The older practice was to give the figures in sterling; but the Government of India have revised their policy in this regard, and the latest practice is to give figures in rupees. For purposes of a comparative study of the growth of Indian trade, however, the difficulty occurs not merely of the standard or unit of values being dissimilar; but also of the figures being themselves different even after conversion of sterling into rupees at either the ten rupee or the 15 rupee exchange. The following table is compiled from the *Review of the Trade of India*, 1914-15 [(cd. 8228) 1916] p. 69. The figures are in thousands sterling; but whether we multiply them by 10 or 15 we do not get identical figures for the same years as compared with the table in the text, at least for the earlier years.

Value of Merchandise and Treasure, and Gold separately, during half a Century.

(in thousands of £ sterling.)

	MERCHANDISE.		TREASURE.	GOLD.
	Imports	Exports	Net imports	Net imports
Quinquennial average—				
1864-65 to 1868-69	29,898	54,703	15,518	5,724
1869-70 to 1873-74	30,084	51,639	6,285	2,928
1874-75 to 1878-79	33,530	52,810	6,175	594
1879-80 to 1883-84	41,294	64,798	8,500	3,394
1884-85 to 1888-89	46,125	65,135	8,845	2,298
1889-90 to 1893-94	47,726	70,752	9,556	1,562
1894-95 to 1898-99	43,538	64,707	5,257	1,510
1899-1900 to 1903-04	56,452	83,281	9,574	4,122
In the year 1904-05	69,607	105,147	15,313	6,467
" 1905-06	74,740	107,893	10,787	307
" 1906-07	78,193	118,020	25,907	9,900
" 1907-08	91,098	118,323	24,557	11,578
" 1908-09	85,858	102,095	10,950	2,904
" 1909-10	81,767	125,312	20,749	14,453
" 1910-11	89,137	139,974	21,740	15,986
" 1911-12	96,037	151,993	28,731	25,173
" 1912-13	111,086	164,146	34,133	22,667
" 1913-14	127,593	166,009	24,239	15,550
" 1914-15	96,620	121,451	11,014	5,098

The same story is repeated if we take our statistics from the statistical abstract, let alone such secondary authorities as Mr. Dutt, or Dadabhoy Naoroji, or the different committees on Indian Currency. We have taken our figures from the *Review of the Trade of India* for 1920-21, (No. 1480 of 1921, Govt of India) as being, presumably, the most reliable as being the latest. But this does not remedy—it only obviates the difficulty caused to the student of research by such frequent changes in the unit of valuation.

Figures in million sterling:—

	1913		1920		1921-1922	
	Imports.	Exports.	Imports.	Exports.	Imports.	Exports.
Britain	768,734	634 820	1932.648	1557.223	1003.918	724.273
France	318 034	265.454	*49904.8*	*26894.7*	*23548.3*	*21553.1*
U. S. A.	362 601	485.701	1047.670	1622.207	730.889	7277.127
Germany ...	560.335	509.965	*99077.2*	*69420.1*	......	...
Japan	59.573	59.110	233.617	194.838	101.388	125.285
India	127.539	166.009	231.4	177.3	180.27	165.91

For purposes of comparison, we find the total trade and populations of the countries here illustrated* compare as follows, in 1913 and 1921.

	Total Trade.	Population.	Trade per head.
Britain	1403.554 1728.191	45,516,259 47,307,601	£ 30.8 „ 86.5
France	583.488 45093.4	39,601,509 39,209,766	„ 14.73 „ 1153 francs
Germany...	1070.300	65,925,993	„ 16.3 ......
U. S. A.	848.302 2008.016	91,972,266 105,710,620	„ 9.2 „ 19.3
Japan	118.683 226.673	53,362,682 59,961,140	„ 2.4 „ 3.75
India	293.548 346.18	315,156,396 319,075,132	0-18/8 1-1-8

According to these figures Britain has the largest volume of trade per head of population, while Germany and the United States are hot candi-

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[*] The figures are compiled from the *Statesman's Year Book* 1922. Those for France and Germany, for the later years, are given in the local currency, and are relatively unreliable owing to the depreciation in that currency. For the remaining countries the exchange being relatively stable, the figures are given in sterling. It must also be noted that the 1st column for France gives figures for 1912, and those for Japan for 1914, while in the last column, all figures are for 1921, except in the case of Britain, which has the latest figures for 1922 as published in the economic papers of January 1923. The Indian figures are for fiscal years.

dates for a second place. But we cannot conclude from this, that Britain is richer than the United States or even than Germany. Trade figures, and particularly those relating to the aggregate, are really no indication of the intrinsic prosperity of the country. Even the more detailed statistics of Imports and Exports, tell us very little as to the real purchasing power of the countries concerned, or their productive capacity. For if we measure the wealth of nations by the estimated average income per head, the United States would be by far and away the richest country on the globe, while Britain would be a very poor second. And though this is a much better index of national wealth than mere trade statistics, it also is not quite satisfactory in so far as it makes no allowance for the demands of the state upon the gross income of the individual citizen, nor even for the objects, productive or otherwise, on which the public revenues are expended. If adequate allowance were made for these facts, the wealth per head in the British Isles would prove much less than that in the United States or even in many of Britain's own Dominions. *

We shall have much more to say of the real significance of trade figures in relation to national wealth, with special reference, of course, to Indian conditions, in the following sections of this work. But in regard to the comparative utility of the statistics relating to the gross volume of a country's trade, the point must be made that such significance as these figures may legitimately claim is only determined after we have understood the real nature of the trade in question. Is the trade an exchange of surplus and superfluities, or is it one involving the absolute necessaries of national life? The importance of the nation's foreign trade would be judged on entirely different lines in countries whose commerce is of the latter description, than in those where they deal chiefly in surplus or special production. The importance of foreign trade is judged in England, for example, on quite different lines, since the very existence of the nation depends upon the maintenance of that trade, from those which influence American opinion on the matter, as the latter have, within their own frontiers, resources and markets enough not to be unduly apprehensive about trade domination.

XV. THE THEORY OF INTERNATIONAL TRADE.

We may, in connection with the study of the aggregate volume of international trade, consider the fundamental principles that govern the origin of all commerce in the world. The classical economists have all agreed that the origin of international exchange must be sought in the differences in the comparative cost of producing the given articles in the different trading countries. As Cairns puts it :

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* Cp. on this point Sir Josiah Stamp's article in the Statistical Journal for July 1919; as also the various works of the same writer on national wealth and taxable capacity.

"The one condition at once essential to and also sufficient for the existence of International Trade is a diffrence in the comparative, as contradistinguished from the absolute cost of producing the commodities exchanged.

Assuming, for the sake of illustration, that there are only two nations trading with one another in only two commodities—and that they are just producing those two commodities only—the differences in their respective cost of production in each country would soon compel it to concentrate on the production of that only in which it has a relative advantage. Let us call the trading countries A and B and their commodities of trade x and y. If now a unit of productive power in A produces 10 x or 20 y, while the same unit of productive power in B produces 10 x or 15 y, it is obvious that A has a *relative* advantage over B in producing y. It is also obvious that if each of these countries devotes itself to producing both the commodities itself. the total production between them would be 20 x and 35 y. But if A concentrated itself on producing only y, and left B to produce only x, even though in the production of x A is as well-situated as B, the aggregate production between them would be *40 y and 20 x*. There can be no disputing the fact that, if the relative advantage in production is realised, and if in consequence the trading countries concentrate themselves each on the production of that group of commodities in which it has the greatest relative advantage, the total production in the world must be enhanced. It is another question whether the advantage to the individual countries engaged in trade is equal or real, though it may be conceded that some advantage to each must accrue, if the division of labour is based on a natural and substantial difference in productive capacity. To make our illustration concrete, let us substitute America and India for A and B respectively, and cotton and jute for x and y respectively. Assuming, as we may, that each of these countries is capable of producing cotton as well as jute; but that, everything considered, America is more advantageously situated in producing cotton, and India in producing jute, an absolute increment in the aggregate production would result if each concentrated itself on the production of that in which it had the greatest advantage—i. e. America on Cotton, and India on Jute. If the analogy of the previous algebraical illustration is extended to this concrete case in all particulars, America would decisively have an advantage in exchange; and it may even be added that India also would derive some advantage from the better employment of her productive energy in the most suitable channel.*

XVI. THE LIMITATIONS OF THE THEORY.

This is a brief, but by no means an unfair, statement of the classical theory of the origin of international trade. Its obvious limitations are not entirely ignored by the classical writers themselves or their modern disciples. The relative advantage of specialisation as depicted above can only arise, if the commodities in question are capable of being proportionately increased to any limit by a corresponding increase in the amount of productive power, so that their value in exchange should vary directly with their cost of production. This means that we ignore altogether the influence of custom dictating the organisation or extent of production; or, much more important still, that of the law of diminishing or increasing returns as affecting the production of any commodity. If, for example, slightly altering the concrete illustration already given, custom ordains in India that cattle shall not be slaughtered in large numbers, India cannot develop a large-scale meat industry, and would even suffer in the production of leather goods.* It is no use demonstrating if and to what extent India has a relative advantage in connection with these products as compared with America, for the simple reason that the Indian people will not consider it. Again, it is exceedingly difficult to estimate correctly the relative advantage in the production of a given commodity. In the abstract analysis of the main theory we have conveniently used the vague term "productive power" to escape the difficulty of estimating the exertions of a country in units of labour and capital, not to mention the importance of the less material factors such as the force of perfected organisation or acquired skill. It was, for example, simply impossible to reproduce the fancy productions of Dacca muslins all through the ages till within half a century. Or, to give a different example, in all appearances, the manufacture of certain kinds of goods in the cotton industry ought to be more advantageous in this country than in Britain; since the former produces her own raw material, while the latter has to import it over large distances; the former can command cheap and seemingly unlimited labour supply; the latter has to accept a relatively high standard of existence. And, in spite of these apparent advantages, Britain decidedly commands a better position in cotton manufacture on the whole. Why? In explanation we have unavoidably to fall back upon such vague, immaterial generalities as the better organisation and superior skill. It is somewhat difficult to find a place for superiority of the workers' skill in measuring the advantages of an industry so wholly dominated by machinery as the cotton industry undoubtedly is. And as for organisation for the production and marketing of the finished article, it is impossible to believe that it is incapable of imitation and reproduction in India. And yet the fact of a difference in the relative productive capacity of these two countries in regard to this article is indisputable.

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* This is the essence of Prof. Bastable's work on the *Theory of International Trade* which gives the most succinct and lucid resume of this classical doctrine.

Yet another limitation, which is not quite fully noticed, and, certainly, not satisfactorily answered by the authors and supporters of the classical doctrine of trade, is the question as to how the gain, admitting that there is one, is to be shared betwen the trading countries. The fact of the trade must be assumed to be an invariable concomitant of the acceptance of the principle of division of work. For otherwise, if A merely doubles its production of y by concentrating on that alone, and B follows suit in x, there would not at all be an advantage, should A be still wanting some x and B some y. They must tacitly agree, not only to specialise, but also to exchange their specialities. But if they are to exchange, would they not differ as to the proportion in which the gain is to be shared? If A can get only 10 x in exchange for its surplus of 20 y—or if B can get only 15 y in exchange for its surplus of 10 x—where would be the advantage to either? If countries are separated from one another by seas or rivers or mountains, the fact of exchange can only occur if there is a means of communication or transport. And the agency which renders this service of transporting the goods exchanged must also be remunerated from the same store of aggregate produce in the trading countries. Would specialisation, and its cousequence —exchange—be really beneficial, if a substantial portion of the total gain is to be swallowed up by this third party—the transport agency? It is no use generalising that in international exchange, owing to the steadying influence of large numbers, the ratio of exchange for the commodities to be exchanged will be determined by the comparative intensity of demand on either side operating within the limits set by the differences in comparative cost. For this anwer does not advance the solution of the real problem by a single inch. The extent of the actual gain derived from international trading may have a reaction upon the organisation of production within the trading countries. If sufficiently large it may even modify custom and neutralise the effect of special aptitudes or facilities. But all these consequences may result only if we first determine whether there is a net gain; and, if so, how much of it goes to the share of each country. It is just here that the classical explanation of the origin of foreign trade is the least satisfactory.

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* This is not merely an imaginary example. The strong agitation against the proposal to establish a large scale abattoir at Ratona in the Central Provinces in 1920-21 was so far successful as to negative the very idea for at least a decade to come.

XVII. CRITIQUE OF ITS FUNDAMENTAL ASSUMPTIONS.

This, however, does not exhaust the list of limitations on the classical doctrine of trade. Its fundamental assumptions are themselves not so axiomatic as they have been believed. It is a fact, indeed, that the physical properties of different regions on the globe show marked differences; that these properties, such as they are, are not always equal to maintain or support the number of human beings dependent or resident upon each region; and that the full complement of the requirements of human life on a given scale can only be obtained—with the least difficulty,—by exchanging the natural specialities and therefore surpluses of one region with those of another.* Trade, according to this view—which meets with a greater degree of support from the history of the human race than the classical doctrine now in vogue—**is regional in origin, and determined by surplus in production over use.** I consider it a fundamentally vicious view to hold that trade results from the perception of differences in the relative costs of production. Apart altogether from the difficulty of estimating concretely these differences—which would be an insurmountable obstacle in almost any age in the past, and which even now, with all our accumulating wealth of statistical minutiæ, is not quite reliable nor satisfactorily explaining the existence of each particular instance of trade—that explanation does not at all square with the fact that trading countries do not so wholly, or even largely, specialise, as the exigencies of the classical doctrine would demand.* Trade was in its origin interregional. It has, by the peculiarity of the social organisation we have developed, become international. Trade must have been originally in surplus of production. It has, in course of time and by the peculiarities of our existing social regime, been turned into an exchange of necessaries which need not, and often do not, represent the surplus.† We would not—because we cannot—ignore the existence of nationalities. But, while admitting that the sentiment of nationality nowadays materially influences the nature, volume and the course of trade; while admitting, likewise, that for convenience of studying the phenomenon of such exchange, the consideration of national—as contradistinguished from regional—trade would be the most acceptable,—I see no reason for fundamentally misreading the basic character and origin of international exchange. The differences of comparative costs, when perceived, may no doubt influence the volume of trade, and even suggest some special development. But it is, probably, a view more in accordance with actual facts to hold that the extent of this factor is determined in actual operation by the knowledge or estimate of the comparative intensity of demand, than the commonly accepted notion that the comparative intensity of demand dictates the distribution of the gain resulting from trade arising out of the perception of differences in the comparative costs of production.‡

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* The precedence of civic patriotism over national sentiment is too well known and too wide-spread a fact of human history and civilisation to be ignored. National sentiment is the growth at most of the last two centuries. Its disastrous consequences upon the human race have not yet influenced the accepted codes of ethics which still regard it as a virtue.

XVIII. THE SENTIMENT OF NATIONALITY.

And this brings us to the consideration of another limitation, or fallacy, involved in the classical explanation of the origin of trade. It assumes the differences in comparative cost to be natural and unalterable. Human ingenuity cannot alter them; our organisation and contrivance only exploit them. The facts, however, are entirely different. The particular stage of manufacturing skill attained by any country at a given moment is not, necessarily and unquestionably, the result of indisputable and unalterable natural peculiarities. There is not a natural gift but can be bettered by human ingenuity. There is not a natural hardship, but that its effects can be minimised by human contrivance. If England has exhausted her forests, but must still have ships, or manufacture steel, she can substitute coal for charcoal and steel for wood in ship-building. And the consequence of this change, wrought entirely by human ingenuity and contrivance, is all the more economical than the old, established and seemingly natural order of things. [*] Production, in fact, if left entirely to what might be called natural conditions, would quickly make an end of our present day civilisation; and though there may be many features of that civilisation which cannot possibly be welcomed; though a return to nature may be represented by idealistic dreamers as a reversion to "arcadian simplicity of life," [†] there is much in that civilisation which we cannot suffer to perish entirely. Human experience and human ingenuity have, therefore, to be applied with ever growing intensity to the re-formation, reorganisation, and re-operation of our industry. Inventions and improvements have in fact been known in historical fact to revolutionise the very basis and fortunes of more than one industry; and no one can possibly be heard if he argues for a freedom of exchange between two sets of industrial organisations, one of which is backed by all the latest contrivances and improvements towards perfection in execution and economy in operation, and the other lacking absolutely in all these advantages. There can, in fact, be no comparison of relative costs of production between two such units. [‡]

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* The fact that on either side of the trading balance sheet of most countries the same articles occur would be sufficient corroboration of this remark.

† We do not here think so much of the trade between primitive peoples and their more sophisticated brethren from other lands, as of the trade between countries on almost the same level of civilisation.

‡ Bastable Op. cit.

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[*] This is the result of what Dr. Marshall would call the Principle of Substitution. "The principle of substitution is closely connected with, and is indeed partly based on, that tendency to a diminishing rate of return from any excessive application of resources or of energies in any given direction, which is in accordance with general experience. It is thus linked up with the broad tendency of a diminishing return to increased applications of capital and labour to land in old countries which plays a prominent part in classical economics. And it is so closely akin to the principle of diminution of marginal utility that results in general from increased expenditure, that some applications of the two principles are almost identical. It has already been observed that new methods of production bring into existence new commodities, or lower the price of old commodities so as to bring them within the reach of increased numbers of consumers; that on the other hand changes in the methods and volume of consumption cause new developments of production, and new distribution of the resources of production and that though some methods of consumption which contribute most to man's higher life do little if anything towards furthering the production of material wealth, yet production and consumption are intimately correlated" Marshall, *Principle of Economics* V. IV. § p. 356.

[†] The antagonism to machine production and its counterpart of modern industrialism was made vocal and concrete by the leader of the most advanced wing of Indian nationalism, in the shape of an untiring insistence upon the resuscitation of the spinning-wheel. Judged by material results the movement cannot be said to have been successful, though, of course, it is open to the champions of the movement to deny the applicability of material standards in testing the success or failure of their doctrine.

[‡] Modern trade, however, furnishes many such examples, e. g. the Sino-American or the Indo—British trade. It is the claimax of credulity when we find writers of unquestioned merit tacitly assuming that the principle of comparative costs operated even in such instances.

What mechanical inventions and scientific discoveries are to particular industries and the trade in them,* the scientific systems of well-planned state assistance to a country's industry and commerce are to industry and commerce collectively. We shall have more to say on this subject in a later section of this work.† Here we may only observe that actual trade in the world of to-day is the result far more of deliberate efforts of certain communities to have a particular form of trade—mainly one in which exports of manufactured goods predominate—than the outcome of an automatic operation of natural laws, or the result of a sheer assertion of the principle of differences in comparative costs. The full operation of the latter principle can only be said to occur when the exchanging nations are on an equal footing in all essential particulars incidental to this exchange. Where such an equality does not exist, whether owing to historical accidents, or as the result of special exertions deliberately made to attain to a particular goal, trade can scarcely be considered to be normal; and every effort on the part of the community, fancying itself aggrieved or at a disadvantage, to rectify the balance must be held to be justified.‡ Such efforts may, indeed, be occasionally misconceived, often misguided, and almost always involving a certain waste of energy. But the principle of nationality itself is an evil. The virtue of patriotism may itself appear a crime against humanity. But though we may deplore the extravagance of modern nationalist sentiment, in so far as it needlessly piles up avoidable barriers against the freedom of intercourse, and adds up legacies of mutual distrust and hatred between the peoples of the world, we must not overlook the fact of its existence; we cannot dispense with the aid of its organisation, as at once the most efficient for the convenient exercise of collective deliberations in such matters. Commercial intercourse based upon the full recognition of nationalist sentiments may not always be natural according to the requirements of comparative costs. But if the perfection of international commerce is ever to be achieved, we think it would be best to regard nationalist activities, mistaken and wasteful though they might seem in particular instances, as the best available weapon to forge a perfect basis of equality between the trading communities.

We are not unaware of the fallacy inherent in such a conclusion. Like the Kaiser and his militarist associates, who piled up armaments as the best guarantee of peace and were yet unable to avert the most disastrous war on record, we permit nationalist particularism to run amok in the hope of its very intensity ultimately defeating its own purpose, and thereby bringing about a regime of internationalism. But the fallacy is only a fallacy in appearance, and becomes one in fact only on account of the perversities of human nature. In ultimate analysis, the sentiment of nationalism would be perceived to be the excrecense it really is, and would gradually be abandoned. But to pave the way for its ultimate abandonment, we must first permit its full extent of suicidal venom to be exhausted. Or, to put the same thing in a form more acceptable to nationalist sentiment, we must allow and encourage it to rectify the initial disadvantages by collecitve exertions.* That natural trade is inter-regional and only in surplus production will then be impossible to overlook, when no excuse remains for paying particular attention to the development of a given locality. The classical assumption of a natural division of territorial labour would have been accepted without demur, if it could be proved that the regional distribution of particular forms of wealth exactly coincided with the ethnic distribution of population; so that just that type of people would inhabit a given region as would, by their inherent qualities, be best suited to develop the special endowments of that region. Actually, however, population is nowhere homogeneous, and seldom in exact correspondance with the requirements for the development of the wealth of that region. The movement of population, again, are constantly modifying the position.† The only approach, therefore, that we can now perceive as being made towards the ideal of classical doctrine, is by the reduction of the number of trading units, whether by forcible absorption of several units into one gigantic whole—the British Empire, for example,—or by voluntary association into a common unit like a zollverein. Within the borders of this new enlarged unit, every one agrees, the fullest freedom should be afforded to the development of regional peculiarities, unimpeded by any restrictive regulations. Outside these frontiers trading rivalries will develop, continue and intensify, till they again, in their turn, bring about their own extinction by the institution of still larger units like a League of Nations, agreeing to extend freedom of exchange *inter se.* We believe the idea of a republic of commerce, co-terminous with the world, is not merely a figure of speech, but a most possible fact. But we also believe that to attain to it, the best method is not to ignore the existing sentiments and distinctions as influencing the nature, direction and volume of exchange.

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* The best example of the latter kind most familiar to Indian readers is that of indigo and its dyestuffs made in India from the earliest ages to the day when the aniline dye was discovered in a German laboratory. Our dye trade has practically ceased since that day.

† See the part dealing with Tariffs.

‡ The position of the United Kingdom at the end of the Napoleonic wars and for fifty years thereafter was the result, we may say, of a series of historical accidents. It made that country pre-eminently and indisputably the workshop of the world. But it would be inhuman to insist that when other communities had come to realise the exact reason for British preeminence in industry, they would not do their utmost to shake of the British hold upon themselves, and to share in the British trade dominion over the world.

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* That international exchange is, in origin and by nature, really a commerce between regions as distinguished from nations, we may mention the patent fact of the steadily growing trade in spite of all nationalist contrivances to the contrary in Germany, Japan and the United States, where intense nationalism of the kind here referred to has reached the zenith of activities. Each shows a steady increase in the total trade as well as in the Imports and Exports schedules.

† The anti-immigration legislation in many countries to-day, though apparently economic, passed with a view to preserve the wealth of a country for the original population of that region, is in reality quite opposed to the requirements of their own regional economics. Australia as well as Africa would benefit by a free influx of foreign labour which can afterwards be natualised. But their policy of a white Australia is dictated by a sense of jealousy and may result in an imperfect development of their countries.

XIX. REAL TRADE INTER-REGIONAL AND IN SURPLUS PRODUCE.

The view, however, that the proper analysis of the phenomenon of economic exchange would reveal the world-trade to be more truly inter-regional than international, as well as consisting of the exchange of surplus products only, is likely to expose us to the charge of a grave economic heresy. The accepted doctrine regards trade to be independent of surplus in production, because the observation of the facts of life in a given number of countries has shown them that trade is most considerable where there is no question of a surplus. The ideal of self-sufficiency being impracticable by certain regions of the world, the thinkers of those regions have hastened to generalise that it is impossible for mankind. We see no reason to adopt such a view. With the growing size of the trading units, instances would not be wanting to show that self-sufficiency is perfectly easy for some countries even under the complex exigencies of modern civilisation. America and India and China can each meet practically all their own needs by their own efforts. The foreign trade of America begins to approximate every year closer and closer to the natural character of really beneficial trade, in that it becomes more and more a trade in surplus of production.* That of the other countries may as easily become so, if the artificial limitations now imposed upon them are counterbalanced by special exertions to reshape and redirect that trade. An equal possibility in the like direction may materialise if the United States of Europe comprising all the countries of that continent comes into being.† In the meanwhile, however, the position of some insular units may not commend the idea of trade being confined to surpluses to them. The whole character of the trade of Great Britain to-day makes it peculiarly sensitive on this point, driving its thinkers, by the sheer force of their insular position, to set their face firmly against the real nature of all trading operations. Great Britain largely imports articles, which she either cannot or does not produce herself at all (raw cotton, tea, coffee, tobacco) ; or which she cannot produce in quantities sufficient for her population (corn, meat, wines and spirits &c.) In exchange, she exports articles for which, though she manufactures them in the largest quantities, she has herself no use (cotton goods), or which she does not require herself in the quantity in which she produces them. The latter only can be, if at all, regarded as the surplus. But the series of historical accidents which has made her preeminently a manufacturing country, and yet given her a population much too large to be fed out of her own resources, has made her look upon the entire organisation of production with an essentially different light. *She thinks of production as being principally organised for exchange, whereas the more correct view is that production must primarily be regarded as being undertaken for use.*[*] Each effort is made to meet its own satisfaction. The round-about provision of such satisfaction by first organising production for exchange only, is, to say the least, needlessly engendering a misdirection, if not waste, of energy. It is, besides, misunderstanding entirely the character of trade to hold that it would not arise if production was organised on the basis of use as distinguished from exchange. Given the existence of regional peculiarities, the creation of a surplus would be unavoidable, if we assume the proper development of productive organisation. And once the surplus arises, its exchange would only be a question of time and tactics. The insistance by woman, for example, upon freedom for herself and the right to lead her own life in her own way does not prevent the sex attraction from functioning, or sex intercourse developing, with a view to propagate or maintain the race. And this quite apart from the growing tendency in modern times for married individuals to lead each his or her particular life. The stress upon the regional peculiarities would, in a world, where commercial exchange is placed on a footing of universal equality, in no way prejudice the possibility of commercial intercourse, and may even render the latter more healthy and reasonable.

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* As examples we may mention the trade in motor vehicles, petroleum, packed meat, metalware and latest inventions like phonographs, typewriters, cinema films &c.

† The development of the *Triple entente* and the Triple Alliance in the early years of the present century, though directly traceable to political considerations, was not entirely regardless of economic side-lights. The Tariff relations between Austria and Germany for example suggested a faint possibility of assimilation in near future; while the resolutions of the Paris Economic Conference in war time (1915) frankly indicated a concerted economic policy for the western Allies.

XX. SPECIAL CASES.

This revision of the basic view of foreign trade does not, however, solve the peculiar difficulties of peoples like those of Great Britain. The practical operation of this revised view of things will have no chance of success if such an important community finds no satisfaction in the arrangement based upon this doctrine. Production primarily for use, as contradistinguished from production primarily or principally for exchange, may be all very well for other peoples: it may be conceded to be more economical as well as more in accordance with the laws of nature, *y compris* human nature as well as physical peculiarities. It may even be admitted to be more conducive to the development of the higher wants of man, which to-day have to be submerged, and may prove more encouraging to the cultivation of the graces and amenities of human life, which to-day, not being capable of valuation in a system motived and dominated by the obsession of exchange, have perforce to be neglected. But admitting all this, the sad fact remains that for England, and those who have blindly followed her example, the scheme is simply unsuitable.* They cannot be asked to simply fall out; and we cannot be asked deliberately to misconceive the nature of trade. But the security and maintenance of lands and people like the British, pending at least the evolution of some form of a European replica of the United States of America, can be guaranteed without necessarily demanding a misreading of the origin of trade. These people must realise, indeed, the mistake of the accepted notions; and hasten, of their own accord, to reform their industry and reorganise their trade basis while it is yet time.† Scrapping of industries, in which, whatever their preeminence hitherto, they are menaced with relentless rivalry, is ultimately a cheaper proposition than a blind continuance in traditional paths. The accumulation of technical experience they can now command, over and above that at the disposal of the peoples they trade with, would enable them more readily to replace their scrapped industries, by others equally productive. And if this alternative is costly—(the economics of such a deliberate, wholesale substitution cannot be summarised in a sentence, even supposing they are understood in perfection enough to permit their crystallisation in a single sentence,] the possibility of emigration—both for capital and labour—to regions where there is still room for them would be more easy of accomplishment, more profitable to the parties immediately concerned as well as to humanity at large, than the continued misunderstanding of the very essence of foreign trade. The feat of causing successfully emigration of millions of souls is not a light one, we know; but it is also not absolutely impossible, nor relatively costlier. The yet undeveloped regions of the world, Australia and South America, Africa and parts of Asia, permit the hope that the surplus souls in Britain or Germany would find sufficient room in those countries to allow of a more natural trade on the whole.[*] Of course this is a palliative at best. And we must not overlook the possible complications in it by similar necessities being felt in other countries besides those holding the most advanced commercial position to-day. Viewed as a world problem, we think the choice lies in the possibility of human ingenuity so to expand as to provide decent human sustenance to all mankind on a general footing of equality, and the need of deliberately restricting the growth of numbers within the margin of productive powers of the world. So long as the view is tolerated, implicitly if not expressly, that man is his own destroyer by preying upon his own species, the suggestion of a deliberate restriction of population by a wide-spread system of voluntary birth control will not be generally acceptable. For the hope will always be entertained against hope that by sheer force of numbers, if by nothing else, one people may obtain a living at the expense of another. The last European war appears, in this light, nothing but a ghastly essay in predatory habits. It is a comfortable view to recall that while 1,00,000 Red Indians were too many on the whole of the Americas, 100 million inhabitants of the United States are not quite adequate to the possibilities of that country. But can we on this view shut our eyes to the imminent possibilities of the immediate future? Should future generations of humanity show greater ingenuity and make the limited surface of this earth more hospitable than we find it in our time, it would be but fair to leave that generation to enjoy the fruits of its own ingenuity. Let us not, however, for that reason, selfishly impair their future from now—and as far as we can see at present.

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[*] If we accept the principle of the Division of Labour as inducing real economy in production, we must also accept the principle of production for exchange rather than for use. We admit the advantage of Division of Labour within a country, or within an industry. But we consider its extension to a territorial distribution of work is apt to engender misunderstanding and distrust. And we do not see that regional production will necessarily and naturally be organised primarily for exchange inter regions. There seems to be an obviously avoidable waste of energy in such a process.

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* "England furnishes about one-seventh of the Imports into countries other than England, and Germany furnishes *nearly one-eigth*, or substantially the same proportion as the United States. These three nations are by far the greatest providers for the human race in virtually every line of human endeavour. There is an interesting difference, however, between the foreign trade of the United States and Germany, and that of England. In the two first named countries the exports are largely of home production, and this is the case even more in America than in Germany. In the case of England, a very large amount of her foreign trade is that of distributing agent for the producers of other countries." J. D. Whelpley, *Trade of the world* p. 8. But even here the fact of English industry being dependant for raw material upon the foreign trade, as the population is for food stuffs, is not sufficiently brought out. Before the war Germany was the greatest trading rival of Great Britain, and therefore, fast becoming a replica of Great Britain in its dependance upon trade for raw material and food stuffs. Among the trading countries of the world, America was, before the European war, the only exception to this unfortunate but inevitable manifestation of a basic misconception on the origin of trade.

† In a series of three special articles appearing in the Times Trade Supplement in the first weeks of 1923, a singularly clear-sighted writer has analysed the dangers to the British supremacy in international trade, owing to the growth of local industries in the principal countries with which Britain habitually traded. At the end of the review of British trade he asks: "It is possible to evolve a policy that shall ensure the United Kingdom maintaining its commercial supremacy twenty or thirty years ahead, when the overseas developments we have foreshadowed have made giant strides along their path of industrial progress. It is just common sense that the country which produces an abundance of leather should make boots, and that the cotton and wool growing countries should turn out all their requirements in textiles. *In the case of foreign countries I cannot see any way out of the impasse*, except by continuing to use our technical and manufacturing experience to beat those countries in the style and quality of our productions *with the sure knowledge that time is fighting for them and against us*. × × × × × × With respect to the dominions, I think the case is different and possibly more hopeful. With the exception of India in respect to population, the Empire needs for its development capital and population. × × × × × It does appear that some scheme of Empire federation might be formulated, some plan of Imperial partnership, which will supply the need of the Dominions, while safeguarding the interests of the United Kingdom" [Times Trade Supplement, January 20, 1923, p. 439] But unless they make haste even this alternative may prove not feasible.

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[*] Mr. Norman Angell and those who think with him would demur to such a suggestion. In his latest work "*If Britain must live*," he argues against the possibility of wholesale emigration on the ground of outlay alone. But that does not make it impossible. Provided there is real room for such an emigration, mere question of cost would not be an effective deterrent in the event of a full exertion of economic pressure on the soil. The surplus population of Europe alone would aggregate 50 million souls at least, if each country is to reorganise production on the basis of use, and yet maintain its present level of living.. But this figure, in addition to the possible emigration from Asiatic countries for the same reasons, will not be excessive for the known possibilities of the yet undeveloped territories in Australasia and Africa and America.

CHAPTER II.

The Volume of Indian Foreign Trade.

THE CHARACTERISTICS OF OUR OVERSEAS COMMERCE:

XXI. A. EXCESS OF EXPORTS.

Coming next to discuss the peculiarities of the trade of India, we find its most arresting feature to be a steady excess of exports of all merchandise over the corresponding imports, including Government stores. We have already remarked this peculiarity from the earliest ages; and its persistence to-day need, at first sight, occasion no surprise. The following figures are sufficiently eloquent by themselves.

[Figures in lakhs of rupees]

Quinquennial average.			Inports.	Exports.	Excess of Exp.
1864-5	to	1868-9	31,70	55,86	24,16
1869-70	,,	1873-4	33,04	56,25	23,21
1874-5	,,	1878-9	38,36	60,32	21,96
1879-80	,,	1883-4	50,16	79,08	28,92
1884-5	,,	1888-9	61,51	88,64	27,13
1889-90	,,	1893-4	70,78	104,99	34,21
1894-5	,,	1898-9	73,67	107,53	33,86
1899-1900	,,	1903-4	86,68	124,92	40,24
1904-5			104,41	157,72	53,31
1905-6			112,11	161,84	49,73
1906-7			117,29	177,03	59,72
1907-8			136,65	177.48	40,83
1908-9			128,79	153,14	24,35
1909-10			122,65	187,98	65,33
1910-11			133,70	209,96	76,26
1911-12			144,05	227,99	83,94
1912-13			166,63	246,22	79,69
1913-14			191,31	249,01	57,70
1914-15			144,93	182,17	37,24
1915-16			138,17	199,48	61,31
1916-17			160,25	247.36	87,11
1917-18			164,35	244,90	80,55
1918-19			188,56	255,32	66,74
1919-20			221,70	332,76	111.06
1920-21			*347,14*	265,93	*81,21*
1921-22			*270,40*	248,65	*-21,75*
*1922-23			182,89	221.20	38,31

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* The purchasing power of India is not measured merely by her export volume. To the exports of merchandise we must also add the loans floated on account of this country abroad, and being payable in goods here. Before the war India borrowed almost every year in London. Between 1899-1913 the sterling loans of India aggregated £ 126,933,000, or an average of over £ 9 million per annum. In the War years and subsequently the process has been continued, with greater intensity, and the process was further complicated by the expenditure incurred by the Government of India on behalf of the British Government in Mesopotamia and elsewhere, thus adding still further to the credits due to India. This last item amounted between 1915-16 and 1919-20 to nearly 300 million sterling cp. "*Sixty years of Indian Finance*" p. 361, by the present writer.

XXII. EXCESS OF EXPORTS AND PROSPERITY OF INDUSTRY.

This steady excess of exports cannot but suggest at first sight a prosperity of local industry, taking that term in its widest possible significance, which alone can provide such a substantial margin of exports over imports. We have analysed in a later section the character of these exports; and attempted to estimate, from the point of view of national well-being, the desirability or otherwise of this feature in our foreign trade. Here we may simply observe that the apparent excess of Indian production over Indian consumption implies, *first* the inability of India to absorb foreign wares to the full extent of her purchasing power as evidenced by the magnitude of her exports; and, *secondly*, the balance of exports is itself the result, as will be shown more fully below, of the under consumption within the country itself. By a persistent lowering in the standard of life, by starving themselves of their own necessaries for efficiency. it would be possible for any community to show a surplus of export, which cannot, however, necessarily argue corresponding strength in their communal or national well-being. Local industry would be starved if the bulk of the raw material is exported; local health and comforts impaired if the bulk of superior kind of food-stuffs are exported. And the fact that the entire purchasing power is not fully utilised in taking up foreign wares ought to be sufficient proof of this suggestion.

XXIII. EXCESS OF EXPORTS A POLITICAL DRAIN?

This last point, however, brings us up sharp against the peculiar features of Indian economic organisation, which are largely political in their complexion. A large balance of exports, over and above the imports, must be maintained in India if the tribute levied by the British connection of India is to be paid. Normally this tribute is called the Home Charges; and specific analysis of the items composing it is made to show that a part of these at least, if not the whole, is balanced by what may be called "invisible" imports. The following table will show in close conjunction the excess of exports and the Home charges.

[The figures are in thousands sterling.]

Year.	Excess of Exports.	Home Charges.
1899-1900	22,263	16,392
1900-01	17,883	17,200
1901-02	24,076	17,368
1902-03	29,052	18,361
1903-04	34,616	18,146
1904-05	35,540	19,473
1905-06	33,148	18,617
1906-07	39,858	19,028
1907-08	27,298	18,487
1908-09	16,243	18,925
1909-10	43,440	19,123

Year.	Excess of Exports.	Home Charges.
1910-11	50,861	19,581
1911-12	55,956	19,957
1912-13	53,060	20,279
1913-14	38,465	20,311
1914-15	24,083	20,208
1915-16	40,874	20,109
1916-17	58,041	21,145
1917-18	53,693	26,065
1918-19	44,505	23,629
1919-20	74,037	24,643
1920-21	*54,013*	29,735
1921-22	*14,050*	31,260 R. E.*
1922-23	25,540	31,485 B. E.

With the exception of two years of disastrous currency experimenting, the trade of India has steadily shown a balance in her favour, which is usually larger than the Home charges or "Invisible Imports." With the exception of the poor season of 1907-8 this balance has been more than sufficient to meet the Home charges. We must also add to the purchasing power of India, as represented by the Exports balance, the annual borrowings abroad, which averaged £9 millions a year between 1899 and 1913-14, as also the credits due to India for expenses defrayed by her Government on account of the British Government, which, between 1914 and 1920, aggregated £ 300 million in round figures.

On these figures the Home charges would appear to amount on an average in recent years to 45 crores for the Government of India alone, and would be over 50 crores if we include the transactions of the various provincial Governments. How far are these charges a real economic return may be judged by the reader for himself from the subjoined analysis of those charges for 1920-21.

(Figures in thousands sterling.)

Direct demand.	355
Railways	9,657
Posts	854
Debt services	3,335
Civil Admn	977
Currency & Mint	546
Pensions &c.	2,357
Army	11,620
Total	29,735

Out of these 45 crores spent in England, the greatest stretch of imagination can only allow £ 9·657 million for railway debt, and £ 2·357 million of Pensions charges, as being at all in the nature of payments for

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* The trade figures for 1922-23 are only for 9 months; while the Home Charges figures for 1921-22 and 1922-23 are Revised Estimates and Budget Estimates only. They are, also, the Home Charges of the Government of India, excluding those of the Provincial Governments from 1921, when the finances were separated.

"invisible imports." In this view no allowance is made for the fact that not all railways are directly productive, nor has the total account of the Indian railways from the first construction to date shown a net balance of profit. We do not also split hair, in making this allowance, for the true economics of the Pensions obligation, or the effect of such payments made to individuals resident abroad as likely to reduce the capital resources of this country, and thereby handicapping *pro tanto* all projects of large scale industrial development in India. But even deducting these 12 millions odd, we find no material or economic equivalent for the £ 17 or £ 18 millions odd, of which the country is annually drained, on the pretext of the War Office charges and Debt services maintained in England. Even, therefore, if the country's productive capacity can show a surplus of exports over imports, that surplus will be of no real benefit to the country until at least it aggregates 50 crores per annum.

XXIV. THE TRADE BALANCE OF OTHER COUNTRIES.

The perfect balancing of exports and imports is an impossible ideal in any country, though it may be regarded as the index for a perfect state of trade relations. The imports and exports of merchandise are complicated by the exports and imports of specie, which are commonly, though some what erroneously, regarded to have the reverse effect upon national prosperity from the imports and exports of goods. But even these items are capable of calculation; and they do not entirely escape the trading balance-sheet of most civilised countries.* What, however, does not admit of a similar calculation is the so-called invisible imports or exports, in the shape of shipping freights, banking commissions, travellers' remittances, earnings of the nationals of one country resident and operating in another, political tribute, and even movement of securities. The last item may be capable of measurement by an adequately developed system of Bourse regulations; but, as things stand, it is seldom capable of precise measurement. Within very wide margins, it may be said that Imports are paid for by Exports; but the rigorous, indiscriminating application of the maxim—which, like all generalisations, has a grain of truth and a sackful of aphorism—to the facts of any country in any single year is bound to yield most unpleasant surprises. Not only do the imports and exports of any country habitually do not balance; but the imports and exports of the entire commercial world, totalled up, would show a most disconcerting want of balance.† Let us take the trade position of the following five leading commercial countries of the world, who, between them, do the greater portion of the world's commerce and see how we stand with regard to their trade balance.

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* The portion of specie entering or leaving a country in the shape of traveller's pocket money is the only amount likely to escape calculation in modern times.

† The Imports total and Exports total of the 70 odd leading commercial countries of the world show the value of the imports to be greater than that of the exports. A probable explanation is that while Import statistics are given C. I. F. i. e. including cost, insurance and freight, exports are valued for statistical purposes only as at the point of embarcation.

THE UNITED STATES.*

		Imports.		Exports.		Balance (Exports +)
1913	£	362,601,647	£	485,701,271	£	123,099,624
1914	,,	375,785,131	,,	465,936,805	,,	90,151,674
1915	,,	334,833,958	,,	553,717,868	,,	218,883,910
1916	,,	439,576 702	,,	866,696,577	,,	427,119,875
1917	,,	531,871,037	,,	1258,009,678	,,	726,138,641
1918	,,	589,131,080	,,	1183,942,274	,,	594,811,194
1919	,,	619,175,336	,,	1589,861,621	,,	970,686,285
1920	,,	1047,670,423	,,	1622,207,946	,,	574,537,523
1921	,,	730,889,886	,,	1277,127,755	,,	546,237,869

THE UNITED KINGDOM.

1913	£	768,734,739	£	634,820,326	—£	133 914'413
1914	,,	696,635,113	,,	526,195,523	,,	170,439,590
1915	,,	851,893,350	,,	483,930,629	,,	367,962,721
1916	,,	948,506,492	,,	603,845,885	,,	344,660,607
1917	,,	1064,164,678	,,	596,757,207	,,	467,407,471
1918	,,	1316,150,903	,,	532,364,078	,,	783,786,825
1919	,,	1626,156,212	,,	963,384,677	,,	762,771,535
1920	,,	1932,648,881	,,	1557,222,600	,,	375,426,281
1921	,,	1086,687,213	,,	810,248,354	,,	276,428,859
1922	,,	1003,918,000	,,	724,273,000	,,	279,645,000

FRANCE (Total Trade).

1911	£	322,632,000	£	243,076,000	–	79,556,000
1912	,,	318,034,000	,,	265,454,000	–	52,580,000
1919	Fr.	35,799·4	Fr.	11,879·6	–	23,919.8
1920	,,	49,904.8	,,	26,894·7	–	23,010.1
1921	,,	23,548.3	,,	21,553 1	—	1,995·2

JAPAN.

1911	£	51,380,500	£	44,743,300	—	6,637,200
1912	,,	61,894,200	,,	52,698,000	—	9,196,200
1914	,,	59,573,572	,,	59,110,146	—	463,426
1915	,,	53,242,350	,,	70,830,087	+	17,587,737
1916	,,	75,746,791	,,	112,746,811	+	37,000,120
1917	,,	103,583,110	,	160,300,503	+	56,717,393
1918	,,	166,813,813	,,	196,270,025	+	29,356,212
1919	,,	217,331,933	,,	209,887,261	—	7,444,672
1920	,,	233,617,478	,,	194,838,946	–	38,820,532
1821	,,	101,388,100	,,	125,285,000	+	23,816,900

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* These figures are taken from the Statesman's year Book (1919 and 1922). In the case of France and Germany, the figures are only of the Special Trade, which includes only the imports for home use and exports of local origin. These are therefore necessarily smaller than the figures for the general or total trade including *all* Imports and *all* Exports. In the case of France, the figures for 1911 and 1912 are taken from the Daily Mail Year Book for 1914, and those for the post war years have been allowed to be in milliards of francs owing to the depreciation in French currency. The German figures have been taken for obvious reasons only for the pre-war period, while the Japanese have been converted at the rate of £=10 yen

GERMANY.

		Imports,		Exports.		Balance.
1909	£	443,020,500	£	342,934,450	£—	100,080,550
1910	„	465,499,600	„	382,209,900	„	83,289,700
1911	„	500,347,250	„	411,212,900	„	89,127,350
1912	„	550,856,600	„	454,976,450	„	95,880,150
1913	„	560,335,800	„	509,965,000	„	50,370,800
1914	„	269,314,000	„	249,248,000	„	20,066,000

Of these countries, the United States alone shows a margin of Exports over Imports, while Britain, Germany and France are steadily showing a passive balance. But the balance of trade is not the total balance of accounts for or against the countries in question. As regards the United States, for example, a recent work * thus presents the total balance-sheet for 1909, a fairly typical pre-war year, and for 1919 a postwar year, Some of whose features have been, no doubt, since then been very much accentuated. But the essential idea remains unchanged.

1909.

Requiring payments to U. S. A.		Requiring Payments abroad.	
Exports of Merchandise and Silver.	$1,719,000,000	Imports of Merchandise and Silver.	$ 1,356,000,000
Exports of Gold	„ 48,000,000	Interest on European Investments	„ 250,000,000
		Tourist Expenditures	„ 170,000,000
		Remittances to Friends	„ 150,000,000
		Freight charges due to Europe	„ 25,000,000
Total	$ 1,767,000,000	Total	„ 1951,000,000

Balance against the United States $ 184,000,000.

Though the writers above-named do not explicitly state it, this pre-war balance was met by the European investment of fresh capital in America, or, what is the same thing for our present purposes, the export of American securities to foreign countries. †

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* "*America and the Balance Sheet of Europe*", by John F. Bass & Harold G. Moulton p. 18-19.

† "The final outcome of all these operations showed a balance of $ 184,000,000 still to be accounted for. This might have been settled by an exportation of gold; but it was in fact offset by new—permanent or temporary—investments in the United States by other countries," Ibid. p. 14

1919.

Requiring Payments to U. S.		Requiring payments abroad.	
Exports of Merchandise and Silver	$ 8,151,000,000	Imports of Merchandise and Silver	$ 3,993,000,000
Exports of Gold (net)	„ 368,000,000	Tourist Expenditures „	50,000,000
Interest on American Investment in Europe	„ 122,000,000 „ 500,000,000	Remittances to friends,,	300,000,000
Freight charges due	„ 73,000,000	Balance in favour of United States	„ 5,771,000,000

Though the 1920 and 1921 Trade balance figures are much smaller, than those of 1919—the year of hectic and record trade boom,—they still left a balance in favour of the United States of £ 1,120 million in two years. The U. S. A, have become a great creditor country, which, instead of having to pay about $ 250 million annually by way of interest charge to Europe, now finds itself in a position to receive some 622 million dollars on that score, per annum. Of these, about 500 million dollars represent the interest due on Government loans to European countries in war-time; and the balance, an interest on foreign investments of American citizens.* America also has decided to build a permanent mercantile marine of her own; and though perhaps she may not, in immediate future, become a world creditor on account of shipping freights due to her, she certainly promises to be at least her own carrier, and thereby cancel off the amounts, which, before the War, she was obliged to pay to the principal ship-owning countries of Europe. The tourist expenditure and remittances from foreign residents earning in America may, and probably will, increase in the near future; while the capital investment abroad, by way of direct purchase of foreign securities or starting industrial concerns, or working such concessions in foreign countries by means of American capital, may increase. The balance now in favour of America is, in view of the exhausted condition of the rest of the world, too great to be successfully paid, without either an increase of American investments abroad, or an entire cancellation of debts due to America from the weaker nations of Europe. It may also be noted here in passing that the American intentions, if they can be taken as fairly represented by the Fordney Tariff and the Shipping Subsidy Bill of 1922, do not indicate any willingness on the part of these peoples to facilitate payments of these dues in the shape of increased imports from abroad; though it must also be admitted that, judging from the trade figures of the United States since the passage of the Fordney Tariff Act, the imports into America do not show any appreciable shrinkage, while exports continue to flourish.*

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* If the American debts are settled by European countries on the model of the Anglo—American settlement in the beginning of this year, this item will be very considerably reduced, and may even vanish altogether, if the obviously bankrupt nations of Europe refuse to pay the debts due from them; or if the U. S. A. agree to some scheme of cancelling international indebtedness. At the beginning of 1923, America, after funding the unpaid Interest, was a creditor to the extent of over $ 12 thousand million, the interest whereon at 5% would be $ 617 million.

As regards the apparently adverse balance of Germany in the years immediately preceding the War, the following passage from Mr. W. H. Dawson's classic work on the *Evolution of Modern Germany* may be left to speak for itself. †

> "During the past decade alone, Germany has had an excess of imports above exports of over seven hundred million pounds. It must be left to the special student to inquire in what measure and in what directions this "passive" balance of trade represents permanent additions to the capital wealth of the country. Writing in the *Economic Journal* for December 1907, Prof. E. Von Halle estimated that: "Whilst perhaps £ 20,000,000 are derived from shipping, the rest of the negative balance is made up by income from investments abroad that are figured at something like one and a half milliard pounds. A careful review seems to prove that whilst the valuation of the German colonial enterprise at the present time cannot be put higher than £ 50,000 000, investments in the bonds and stocks of foreign transoceanic countries, including Turkey, amount to £ 200 000 000 out of a total £ 800,000,000 of German foreign investments in securities; whilst the value of the property of German citizens living abroad, and German investments in transoceanic undertakings, including Turkey, may be put at about £ 450,000,000. The total of investments in foreign continents represents the smaller half, but no doubt the most productive part of German foreign investments". ‡

As regards Britain, it is a well-known fact of practical economics that for a long time past, the excess of imports into Britain has been paid for by the shipping freights and banking commissions due to her, as well as the interest on her foreign investments and tributes from her dependencies like India. Before the War, according to a discussion before the Royal Statistical Society in 1914, the total adverse balance against Britain for 1912 was§ :—

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* It may be noted as a curiosity of modern economic history, that notwithstanding the most rigorously protectionist tariffs, the countries levying such duties have continued to derive substantial customs revenues, and their trade has shown a most remarkable buoyancy. Cp. Prof. Taussig's *Tariff History of the United States* Appendix Table I p. 451-2. Before the War the U. S. A. had a customs revenue of over 300 million dollars, and since the Fordney Act that figure is expected to be very substantially increased, in spite of the fact that the latest Tariff measure has been described as the most rigorous Tariff on record.

† Op. Cit. p. 69 and foot note.

‡ "At the present time Germany has little shipping with which to carry world traffic, and hence cannot, as heretofore, pay for imports through freight services. Moreover Germany's investments in foreign lands have largely ceased to exist, with the result that there is no longer interest which can be used to pay for the excess of imports." Bass and Moulton op. cit. p. 187. cp. also J. R. S. S. July 1914 p. 798-9.

§ Cp. Journal Royal Statistical Society for July 1914 p. 799. Paper by Crammond,

Credits:			Debits:		
Exports	£	487,434,000	Imports: goods ..	£	744,897,000
Re-exports	,,	111,838,000	Bullion ...	,,	76,311,000
Exports of Specie ...	,,	64,871,000			
Invisible Exports:			Invisible Imports:		
			Capital Investments...	,,	185,000,000
Interest on Investment	,,	185,000,000	Interest and earnings due to foreigners	,,	20,000,000
Gross earnings of ships	,,	100,000,000			
Earnings of Br-Banks &c.	,,	55,000,000			
		1,004,143,000			1,026,000,000

These figures make Sir R. Giffen's estimates in the same direction more up-to-date* while the following from Bass and Moulton's "*America and the Balance Sheet of Europe* † closely approximate.

CALENDAR YEAR 1920.‡

Trade Items:			Invisible Financial Items:		
Imports	£	19,36,800,000	Interest from abroad	£	120,000,000
Exports	,,	*1,558,000,000*	Income from Shipping	,,	340,000,000
Excess Imports goods	,,	378,800,000			
Excess Exports of bullion	,,	*13,500,000*	Profits from Banking &c.	,,	40,000,000
Net excess Imports ...	,,	335,300,000	Total...	£	500,000,000

In still more recent times these figures have fallen considerably, so that for 1922, Imports totalled £ 1,003.918 millions, and exports and re-exports aggregated £ 724.273 millions, leaving an apparently debit balance of £ 279,645. Against this balance, in spite of the fact that British shipping was the best employed in the course of the year 1920, the gain from that source was estimated at not more than £ 5 million a month, or some £ 60 million all told. § As for income from interest abroad, even assuming the foreign investments of Britain have remained intact or been appreciably added to the £ 120 million odd would be very largely offset by the £ 35-40 million which Britain would have to pay by way of interest on her debt to the

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* Giffen in his "*Economic Inquiries and Studies*" vol. II p. 419, gives £ 90 million as interest on British investments abroad and £ 80 million income from freight together with £ 20 million from Banking &c., commision abroad for 1902 3.

† Op. cit p. 201

‡ These figures have been taken from London Joint, City and Midland Bank Ltd. Monthly Review, February 1921, p. 2.

§ Cp. *The Economist*, London 16th Jan. 1923.

United States from this year. The total of these sources of "invisible exports" would barely amount to £ 150 million at most. If to these we add the Banking profits,—£ 30 million at most, since London is now no longer the monetary centre of the world,—and another £ 20 million by way of tributes exacted from dependancies, the net balance still remaining against Britain would be, on the figures of 1922 trade, over 75 million sterling. Should any of the favourable items mentioned here, e. g. shipping and banking profits, shrink in the near future, the position would to that extent be proportionately imperilled. The possibility of an improvement in any of these items consists of a remote chance that Britain's debtors should be in a position to meet their obligations, as she is trying to meet hers to America; but this chance is so extremely slender that it can only be counted at the third figure after the decimal point. The only salvation lies either in an improvement of Britain's exports, which in turn presupposes an increase in the absorbing capacity and purchasing power of Britain's chief customers, combined with their willingness to go on buying British manufacture instead of attempting to produce them at home; or a reduction of the present pressure of population upon the soil, whether by emigration in large numbers to the colonies, or by a voluntary and deliberate restriction of numbers, until at least another spurt of inventing activities render it possible to ignore the fears of a disproportionate increase in population.

The cases of Japan and France admit of similar explanation. France's small surplus of debits before the war was more than offset by the thriftiness of her people who were good investors at home and abroad. The *rentier* is a class peculiarly French. Japan, on the other hand, was having a varying balance before and during the war, which may be explained thus. Whenever the imports, including merchandise and specie, exceeded the exports similarly calculated, the balance was made up for by the loans, which, in the early years of this century, Japan was habitually raising abroad. The exports, however, had to be developed to discharge loan obligations and meet items of invisible imports like shipping freights. These last have practically been eliminated from the Japanese balance of accounts by a vigorous and sustained effort to develop a Japanese mercantile marine; and it is even probable that Japan is acting as carrier for some other countries, and is thus entitled to freights from outside. The European War gave an unprecedented fillip to Japanese trade and industry, and the exports from Japan shot up like rockets to unequalled heights. The figures given above show a net balance in favour of Japan on trade account of over 100 million sterling between 1911-1921, allowing for the heavy depression of postwar years.

On this brief survey we find no country among the leading commercial countries of the world that shows a position at all comparable to India. This country has a steady—almost unbroken—balance of trade in her favour; which, however, instead of enriching the country, appears, on analysis, to be the most serious cause of her progressive impoverishment. Before the War about Rs. 30 crores or £ 20 million, and at the present over 30 Million sterling a year have to be provided for out of these export balances to meet the so-called Home Charges. The latter may be conceded to contain certain items of "invisible imports", like the interest on foreign capital invested in this country. We shall not discuss here the assumption that all this capital is invested in India so as to result in a real, net, permanent benefit to this country. We shall also avoid the question as to whether adequate inducements have been offered to indigenous capital to take the place of foreign capital, and whether, in spite of such inducements, local capital has refused to face the risks of modern industrial investment. But taking it for granted, for the sake of argument, that all foreign capital is productively engaged, and estimating its total amount at £ 300 million, * which, at 5%, may earn £ 15 million as a fair economic return, this amount may accordingly be deducted from the Home Charges, as being in return for service rendered. Even then we have about £ 17 to £ 20 million—or Rs. 30 crores per annum—of net drain from India, for which she receives absolutely no material equivalent in return. †

XXV. EXCESS OF EXPORTS AND THE INDIAN CURRENCY SYSTEM.

The main effective reason for the regular maintenance of a balance of exports of merchandise over imports is, as we have just seen, the necessity to pay the political tribute. But connected with and dependent on this reason, and even arising from it, is the demand of the peculiarly artificial currency system that has for a generation past been afflicted upon India. So long as the relative values of gold and silver remained practically undisturbed, the essentially alien character of the British Government in India need not and did not display itself in such everyday matters as currency regulation. But when after 1870 the value of silver began to decline in terms of gold, the anxiety of the Government of India to maintain something like stability began to take shape. For their entire income was received in silver currency, and a very substantial portion of their expenditure was in gold—the Home charges payable in Britain in British currency. Each downward step in the decline of silver meant a corresponding compulsion upon the Government of India to raise the pressure of taxation, even supposing the burden of the Home charges remained constant. But the burden being regularly increased every year in the shape of foreign loans, and increased War Office charges, and pensions &c. payable in

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* The estimate of the total foreign investment in India is difficult to make. The sterling debt of the Government of India amounts to £ 250 million. Sterling capital in jute mills, tea gardens and coal mines amount to £ 35 million at most. The pre-war estimate of German investement in India was put a £ 3.5 million [see Statistical Journal for July 1914.] Its place is more than taken by Japanese capital to day, so that the aggregate may be about £300 million.

† Neither stores nor freight charges have any room here, because stores are included in the Trade figures above, and we have already explained how freights escape attention but are already accounted for.

sterling, the Government of India soon reached by forcible marches the limit of the taxable capacity of the country they governed. They then decided to give an artificial value to their standard of currency, the rupee.

By discontinuing the public's right to a free mint, and by withholding fresh coinage from 1893, they created a scarcity of the current coin, which unavoidably raised the exchange value of that coin to the point desired by Government, even though, all the while, the material of which the standard coin was composed was steadily depreciating in reference to gold. When the desired level of the exchange value of the rupee was reached, proclamation was made and legislation passed giving fixity to this position, and promising to maintain it for ever at the new rate. If we may trust official pronouncements, it is clear that the only intention and the sole justification of such an absolutist measure was to introduce bodily a new standard and currency—gold. In view of the growing importance of the foreign trade of India, particularly with gold-using countries; and in view of the gold obligations of the Government of India which they seemed powerless or unwilling to restrict, the change of standard definitely made would have been condoned by the people, even though the latter's advantage lay in maintaining the *status quo*; since, with a depreciating rupee, they stood to obtain better payments for their produce exported abroad. To give an appearance of earnestness to the new regime, the Government had been recommended to reserve all the profits of any fresh coinage of rupees, which, circulating at the new artificial value, left a margin of profit to the monopolist of coinage of about 40 per cent.—into a special fund. And when that fund reached a sufficient proportion, they were required to utilise it for the main purpose and only excuse of the change, the introduction of gold standard, and gold currency in India. Their promises were belied, and their plighted faith broken more than once. Their very intentions seemed to have metamorphosed between 1899 and 1914, and there is now no doubt of the changed motives. After one slight attempt to introduce gold in the currency system of India, they perceived or declared that India was not prepared to receive gold as a circulating medium. The coinage profits fund, originally named the Gold Reserve Fund, but subsequently styled the Gold Standard Reserve, went on accumulating by heavy profits from reckless new coinage. And, generalising from the one experiment showing the inability of the people of India to receive gold currency, they decided that even this special gold reserve need not be kept in India. The Fund was then exported and has ever since remained outside India, under the control of the Secretary of State.

Its entire history is an unbroken tale of the blunders or bad faith of the Government of India. It was created out of the profits of rupee coinage, and intended to help to introduce gold currency in India. It ought, therefore, to have been kept in liquid form in India. It was in fact exported, and kept outside India for ever afterwards, and in the form of non-Indian investments. Its object was altered to simply a maintenance of the fixed exchange; and, with the help of a portion of the Paper Currency Reserve, also conveyed to England, for a time this object was fairly maintained. The nexus with the metallic portion of the Paper Currency Reserve was established by first introducing gold in that reserve to some extent; and then allowing that gold to be exported. The process by which the object of maintaining fixed exchange was attained consisted in a co-ordination of two different schemes of payments, one due from India to Britain, the other from Britain to India.' The former consisted of the Home Charges; the latter represented India's balance of Merchandise exports. In return for gold paid to him in England, by the importers of Indian produce, the Secretary of State issued Bills–the so-called Councils—upon the Government of India, and payable in India in the Indian currency. Out of the gold received by him, he made the disbursements of the Home Treasury, including the Home Charges, and the payment for silver purchases, if any. But the requirements of the Home Charges were, as we have seen, far below the balance of exports due to India. There would still be some margin left, after paying India's Home Charges, which would demand an export from Britain of gold to India—silver becoming increasingly insignificant. But even this balance came to be reduced as much as possible by a policy of unrestricted sale of the Council Bills to cover all the margin due to India; with the result that the entire liquid assets of India came to be located outside India, and thus debarred from being of any service to Indian industry and commerce in the shape of freer, easier credit facilities. The maintenance of the export balance thus obtained a new significance; for, should it have caved in, the new currency arrangements could not possibly have been maintained.

The balance of exports continued, and progressed so heavily under the peculiar conditions of the last war, that it even became embarrassing to the Government in its seemingly insatiate demand for local currency. The Indian Government had either not the wit, the foresight, or the patriotic feeling strong enough to suggest to them that this heavy balance of trade in favour of India could be utilised—as the identical circumstances in their favour Japan and America were utilising before their very eyes—for buying out the foreign debt of India; and thus reducing or extinguishing one very important factor of our economic drain. In the process of depreciation affecting British securities in War-time, such a procedure would have been as beneficial to India as it would have been of service to Britain. Instead the Indian Government chose to intensify the rupee famine by allowing Council sales to the hilt, and buying fresh silver till their own demand had wiped off all their margin of profit on their monopoly of coinage. It was a folly. They remedied it by a crime. When silver prices soared beyond the limits of coinage profitability, they disowned the bargain of fixed exchange, and eventually endeavoured to give a new ratio of exchange, from Rs. 15=£ 1 to Rs. 10=£ 1. The frenzied efforts to prove a glaring wrong to be a Government right succeeded in strangulating the export trade of India; and, for the first time within memory or even history, the imports of India actually exceeded exports in 1920–21 and 1921–22. The Government object was, of course, unachieved. But the nation's prosperity, such as it was, was effectively ruined. The latest available trade figures of India have, no doubt, shown a recovery; and 1922–23 may possibly show an export surplus worth 35 crores at most. But in view of the frenzied finance of the last five years of unbroken deficit; in view of the inflated Home Charges aggregating some 50 crores now; it is exceedingly doubtful if Government can count upon that steady feature of the Trade of India, which alone could maintain their hybrid system of managed currency. The purchasing power of some of our best customers has not yet recovered from the shock of war; and the newly constructed tariff walls in other countries may further affect the trade of India. On the other hand India, herself is on the eve of a revision of her own fiscal system, which, if altered as desired by the people of this country, may conceivably reduce the Import Trade, or the most important section of it. On such a basis it would be madness to construct or maintain a currency system, which, if it is to function at all, must demand a reliable steadiness in the character and features of the Foreign Trade of the country.*

XXVI. BALANCE OF TRADE *VS.* BALANCE OF ACCOUNTS.

The preceding discussion would have failed to serve its purpose if it has not made it clear to the reader that the Balance of Accounts differs substantially from the balance of trade of any country. We have already given illustrations above in plenty to make plain the difference. For purposes of further clearness, however, we may repeat here that while the balance of trade includes items of a country's exports and imports of merchandise and treasure, the balance of accounts must also include all other claims and obligations, such as the payment of interest on Government bonds held abroad, or the expenses of one's country's citizens resident or travelling abroad for business or pleasure, and, *per contra*, the expenses of foreign citizens in one's own country; the payment of loans, indemnities or tributes, and the financing of freights and commissions for a variety of services rendered by the nationals of one country to another, including the remittances of earnings of our countrymen abroad and foreigners in our own land. These items have all been fully illustrated above in regard to Britain and the United States; and may be still further particularised by the following hypothetical illustration for India. †

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* The argument in this section has been summarised from the writer's work on "*Indian Currency, Exchange and Banking.*" Q. V. The part relating to the surplus of exports being used to purchase our foreign debt is worked out a little more fully in another work by the present writer: "*Sixty years of Indian Finance.*"

† These figures have been taken, with alterations, from the present writer's work on "*Indian Currency, Exchange and Banking*". Q. V. p. 290 *et. seq.*

Our credits on account of :—

	In crores.
Exports of goods	Rs.300
Visitors to India	„ 2½
Remittances from emigrants .	„ 1½
Loans abroad	„ 21
	325

Our debits on account of :—

	In crores.
Imports of goods	Rs. 250
Indians abroad ...	„ 1½
Profits of foreign merchants	„ 3½
„ „ „ Banks ...	„ 5
War Office Charges ...	„ 20
Government Stores ...	„ 15
Interest on Debt	„ 20
Other Home Charges ...	„ 5
Net Treasure Purchase ...	„ 5
	325

A perfect balancing of the type here given never occurs in fact; but it is given here to illustrate, as simply as possible, a complex question of national economics. The following table gives all recorded items entering in the Balance of Indian indebtedness.

(Figures are in million sterling. *)

Quinquennial average ending.	Net Exports of private merchandise.	Net imports of Treasure.	Councils+ or Reverse.+
1883-4	20·714	6·920	13·180
1888-9	20·039	8·026	12.000
1893-4	24·773	9.540	14·540
1898-9	25·106	5·667	17·380
1903-4	30·727	9·780	18·507
1908-9	35·639	13·994	23·707—1·607
1913-14	52·179	24·048	27·569— ·031
1918-19	50.892	7·197	23·307—3·664
1919-20	125·992	10.822	36·756-18·577
1920-21	—79·256	—1·464	... —28·548
1921-22	—14·269	8.015	...

XXVII. THE ALTERED CHARACTER OF INDIAN IMPORTS & EXPORTS.

In view of the paucity of material on this point as regards the earlier period, it is almost impossible to give anything like a precise impression of the alteration. To the student, however, who has followed the trend of argument in the earlier section of this work, the following table would suffice to confirm the general impression: that whereas in the past ages the bulk of our exports consisted of manufactured goods, owing to the decisive advantage enjoyed by this country in manufacturing skill and resources in those ages, at present by far the larger proportion of our exports consist of the food stuffs and raw material produced in the country; that while in the past the bulk of our imports consisted of luxury goods or raw material for industry (e. g. silk clothes), at the present moment the bulk of these imports consist of foreign manufactured goods, which are in the nature necessaries for our industrial efficiency.

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* This table has been compiled from the annual Report of the Controller of Currency for 1920-21. The rupee figures for 1919-20 and 1921-22 have been converted into sterling at the official rate of Rs. 10 = £ 1, while those for 1921-22 have been converted at Rs. 15— £ 1 as being more accurate. The Trade figures relate only to private merchandise, Government stores being excluded from either side of the Account. The Council Bills also include payments from the Gold Standard Reserve as well as the Telegraphic Transfers. The small item of enfaced rupee paper imports and exports and the interest on the same has been omitted as it barely amounts to half a million sterling on either side.

	Average for the pre-war Quinquennium.	Average for the war Quinquennium 1914-15–1918-19.	1919-20.	1920-21.	1921-22.
Imports.	Figures are in thousands of Rupees.				
I Food, Drink & Tobacco	21,84,65	26,38,94	41,12,88	35,97,14	50,62,94
II Raw material & Produce	10,03,37	9,52,39	17,37,08	17,10,55	22,01,38
III Manufactures	1,11,80,20	108,56,34	145,35,07	274,97,60	189,37,92
IV Miscellaneous	2,16,50	3,32,52	4,12,21	7,54,97	4,32,38
Total ...	145,84,72	147,80,19	207,94,14	335,60,26	266,34,63
Exports.					
I Food, Drink, Tobacco...	62,96,53	59,56,95	42,22,83	43,67,44	58,51,20
II Raw Material & Produce	102,53,31	84,96,00	159,83,16	103,42,57	111,58,89
III Manufactures	51,88,07	69,39,66	103,24,60	86,91,11	61,66,75
IV Miscellaneous	2,12,36	2,04,09	3,70,92	4,29,22	4,64,15
Total ...	219,50,37	215,96,70	309,01,51	238,30,34	231,38,00

These figures, it may be noted, are exclusive of Government stores on either side. If they were added to the figures, they would inflate still further the proportion of manufactures in the Imports schedule. Expressed in terms of percentages the above table may be re-expressed thus.

	1908-9 to 13-14.	1914-15 to 18-19.	1919-20	1920-21.	1921-22.
Imports.					
Class I	15%	18%	19.8	10.7	19%
,, II	6.87%	6.4%	8.35%	5.0%	8.2%
,, III	76.5%	73.5%	70.4%	81.9%	71.0%
,, IV	1.63%	2.1%	2.45%	2.4%	1.8%
Total ...	100	100	100	100	100
Exports.					
Class I	28.7%	27.6%	13.6%	18.3%	23.1%
,, II	46.7%	39.3%	51.7%	43.4%	48.2%
,, III	23.6%	32.0	33.4%	36.5%	26.6
,, IV	1.00%	1.1%	1.3%	1·8%	2.1
Total ...	100	100	100	100	100

These tables disclose the fact that over two thirds of our exports now consist of agricultural produce including food-stuffs, and raw materials for industry, while on the import side manufactured goods alone command a more than three power standard, or over 75%. While the imports of manufactures were over 75% in the 1st decade of the century, they fell to 73·5% in the war quinquennium, owing chiefly to the reduction in freight available, and partly also to the dislocation of industry in the countries whence we principally imported these goods. This is a decline in value only–the quantitative decline being much larger owing to a rise in values during war-time. The sudden growth of that class in 1920–21 is to be explained by the same cause, values in that year having reached the highest.* It has been estimated that the trade of 1920–21, calculated at prices of 1913–14, shows the following shrinkage. But though the quantity imported manufactures may have really shrunk during the effective protection granted to Indian manufactures by the exigencies of war-time; and though the prospects of Indian manufactures seem to have brightened in the last decade or so, if we judge merely by the standard of the value of exports, the disconcerting fact still stares us in the face that over 70% of our total imports are of manufactured goods. † Neatly fifty per-cent of our total exports consists of raw material which might well have been manufactured in the country, and thereby saved the drain of the manufacturers' and middlemen's profits.

Imports.	Declared value 20-21.	Revalued at 1913-14.	Fall.	Exports.	Declared value 20-21.	Revalued at 1913-14.	Fall
Class I	35,97,14	11,86,05	66%	Class I	43,67,44	35,41,47	19%
„ II	17,10,55	10,23,66	42%	„ II	103,42,57	73,97,68	29%
„ III	274,97,60	115,86,60	57%	„ III	86,91,11	59,49,32	33%
„ IV	7,54,97	3,73,88	50%	„ IV	4,29,22	2,70,21	37%

XXVIII. TERRITORIAL DIVISION OF LABOUR. ITS REALITY.

It is, however, difficult to forecast the probable development of the Indian trade in immediate future from these figures. We know, indeed, that our exports now contain a very small fraction of the total in the shape of manufactured goods, as against the bulk of our exports being manufactures in all the preceding ages of our history. On the other hand we are importing for a century new manufactures which we never needed to import before; and that despite the fact that the prime requisite of manufactures—

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* Cp. Table 55 A. of the Annual Review of the Trade of India for 1920–21 p. 79–80. This table shows that the rise in the prices of imports was far more considerable than that in exports.

† Note that the exports of Indian manufactures was 28.6% of the total exports trade in 1921–2 as against 36.5 per cent in the previous year, 33.4 per cent, in war time and 23.6 per cent in the pre-war quinquennium.

the raw material of industry—we can command in plenty, and which, curiously enough, we are now exporting in yearly increasing quantities. But what does this signify? Are we illustrating the reality of the so-called principle of pre-ordained division of labour in conformity with the territorial distribution of population? Are we exemplifying the sovereignty of economic laws which have decreed that the trade of the world shall proceed on the lines of the observed differences in the comparative cost of production?

It has been already mentioned in a previous section that the merely passive qualities of physical endowments of the territory mankind inhabits will not help in any way, without the active exertions of man to obtain from the gifts of mother earth the satisfaction he needs. And, when the primitive exertions of an uninformed race are replaced and dictated or directed by a settled plan and informed perception of a possible correlation between the endowments of the earth and the exertions of man, by something like a communal conscience and a collective will, the results become almost like miracles. We have ceased to wonder at them, simply because we have been for some time past accustomed to them. It is, however, too much to assume or concede that the existing distribution of the different human races in the different zones of climate, with a different nature of endowment, is so shaped as to bring about the precise correlation we must have, between the racial peculiarities of the inhabitants of a territory and the physical endowments of that part of the earth. The ethnological distribution of population does not coincide, in fact, with the physical powers or capacities of the different parts of the earth. Without taking account of the fact that man's ingenuity can defeat even an initially disadvantageous inheritance offered by his *patrie*, and that, where he cannot yet do so, he can accomplish the same end substantially by the roundabout methods of mixing races, or effecting migrations to more congenial climes; we may still conclude that, on the actual facts of existing arrangements, we cannot very well hold that the actual distribution of the races of men is in such an exact correspondence with the resources of the territories they are apportioned to, that we must perforce realise in the arrangement the assertion of the immutable law of the science of economics, according to which trade arises in accordance with the differences in comparative costs.

We cannot, then, hold that the existing state of the exports and imports of commodities from India are in absolute conformity with the laws of economics; and that, in consequence, any interference of human ingenuity to reshape it would only alter it for the worse. If between the two characteristics of our trade—the present and the past—either could be regarded as at all natural, it is rather the earlier, unsophisticated, or unpremeditated arrangement, brought into existence automatically. That in course of time there have developed factors which have radically affected the industry, and, therefore, the commerce, of India, may be freely accepted. We may even concede that, initially at least, no deliberate intention on the part of any set of human beings to alter and divert the Indian trade, can be established; though in making this concession, we need not ignore the influences inimical to Indian trade and industry, as illustrated by the British Navigation Laws and the Tariff schedules. When the ingenuity of their inventors, or the researches of their scientists, had discovered the principles and perfected the machinery for re-organising their industry; when the boldness of their entrepreneurs had succeeded in harnessing steam to their railroads and ships that revolutionised the cost and method of transport, and facilitated trade in bulky materials, which previously could not even be thought of as possible wares for long distance commerce, it was impossible but that they should re-shape their trade. They had every right to foster their own trade, when such adventitious aid had made their industry flourish. It is deplorable, of course, in the eyes of an Indian economist, that while the industry and trade of Britain came to flourish, those of India concurrently decayed or altered. But from this concomitance of incidents we would not be justified in getting up a causal sequence, if we cannot find adequate independent evidence to support it. The only such evidence is afforded by the political condition of India which demands a drain, without, however, incidentally prejudicing British industries.

XXIX. THE TRADE OF INDIA IN THE LIGHT OF ECONOMIC PRINCIPLES.

It may be, as we have seen, a simple, unpremeditated sequence of events that Indian industries languished and decayed, and Indian trade wholly altered, while British industry flourished and British trade expanded, simply because Britain was the first to seek and apply the aid of science to industry. But even granting that originally it was an unconscious result of two independent forces acting separately, we must yet consider whether after generations of the new experience; after repetitions without limit of concerted national efforts overcoming the initial difficulty of a belated start in industrial development, can we still say that the trade of India—and, its basis, the industry of India is on the true natural principles of economics? By permitting the unrestricted export of food-stuffs and raw material produced in the country, and by importing without let or hindrance foreign manufactured goods in exchange, are we really giving effect to the laws of nature? It is demonstrably true that the capacity to export a part of his produce presupposes a margin of production—or at least indicates the fact of its exchange—which must add to the purchasing power of the producer. It is also evident that the possibility of export of raw materials has helped on a diversification of the main industry of the country—Agriculture—which must certainly be taken to be an accession of strength in exchange.*

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* The substitution of Commercial crops for food-stuffs in an ever increasing degree is a marked feature of modern Indian agriculture too prominent to be ignored. Take only the following figures:—

It may further be assumed, for want of sufficient proof to the contrary, that the products obtained by the country in exchange are obtained relatively more cheaply, than if the same had been produced at home. But, making all these concessions or assumptions, the question still remains whether the export trade really is in the nature of a surplus of production? It may be simply another illustration of the principle of comparative costs to say that though the relative productivity per acre in India of stuffs producible both in this country and in the countries with which she deals is much greater in the latter in many cases, and still the trade in them flourishes, India being an exporter of the very stuffs in producing which she has relatively a lower advantage. But trade at such positive disadvantage cannot be beneficial—and the less so when the export is brought about by a definite and deliberate reduction of the community's standard of living. We export wheat, not because we produce more of it than we need, or better than our customers; but because our people prefer to live on much cheaper and less nutritious stuffs like *Ragi*, *Jowari*, or *Bajri*. And the disadvantage is the more glaring when we come to consider the export of raw materials. It is a prime requisite of successful industrial development that the raw material is available immediately in the country intent upon industrial ambitions. Britain and Germany are, indeed, examples to the contrary; but they are prodigies that, however, cannot upset, by their exceptional circumstances, the rule. With raw material available in superabundance within one's frontiers; with a labour supply, which, if somewhat inefficient, is nevertheless cheap and abundant; with a market at home whose existence and extent may be judged from the consumption of imported goods made out of the very raw material exported, it would seem that all the prime requisites of industrial success are present in India. Why then must she still eschew such ambitions? Given the counterpoise of accumulated skill and experience in the country where such manufactures as she imports are developed to the utmost degree, it may be that the attempt to develop similar industries in India would prove at first costly. But even so, the cost may well be paid in view of the ultimate compensation of a varied industrial life, with a more even distribution of labour, and an improved standard of life in consequence.[*]

(Continued from p. 88)

Area under	In 1892-3.	In 1920.
	(*In millions of acres.*)	
Cotton	8.940	15.318
Oilseeds	13.545	12.571
Jute	2.181	2.800
Tea	0.360	0.701
Sugar	2.798	2.647
Food crops	186.761	199.667

Tea is a new product altogether, and jute, in its present proportions at least, may be taken to be largely so.

[*] The argument of accumulated skill and experience assigns a value to the human factor in modern industry which can scarcely be regarded its due in this age of rapidly encroaching machinery displacing handicraft. What special skill is needed in superintending a machine that functions automatically when once it is set going In the larger

XXX. THE GOAL OF INDIAN INDUSTRIAL AMBITIONS.

For a fuller development of the argument in the preceding sections, the reader must wait for the sections dealing with a detailed analysis of our Exports and Imports, and with the Tariffs. But we may here make clear a point which, in such discussions, is often obscured, and always misapprehended. What is the goal of Indian industrial ambitions; and what would be its reaction, if achieved, on the trade of India ? The only just reason that dictates any industrial ambitions in this country to-day is the desire to avoid the profits of a host of middlemen between the producer of raw materials; their foreign manufacturers, and back again their local consumers in India. India must manufacture at least her own produce of raw material. Or, alternatively or concurrently, India must command her own markets. Modesty, or a desire to avoid needless complications in our international relations, demands that we adopt the more limited of the two. On that basis of no particular anxiety to develop a vast export trade in manufactures, a development which would not only bring us up sharply against the established interests of older producers of manufactures in the common world markets; but which may deny the similar right of developing their own possible industries to other countries,—there seems no reason why the industries of India may not be resuscitated on a modern scale sufficient to meet just her own local demands. It does not follow from this that once the nation's industries are developed, she must restrict her exports or even prohibit them to avoid all possible complications. But if industry is encouraged on the just basis of producing for use primarily, as distinguished from the basis of production organised for exchange entirely, there is no reason to apprehend that trade would have to be forced either by special encouragement or by specific restrictions. The prominent feature of modern European trade seems to be an intolerable frenzy of finding markets, again markets, and still more markets, for the heedlessly piled up surplus of production which cannot possibly be consumed at home. International rivalries and fratricidal warfare is unavoidable so long as Britain and Germany and France specialise and concentrate on articles for the bulk of which they have no possible use at home, and which they must,

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(Continued from p. 89)

interest of the higher life of a community, we may forbid or restrict the employment of children or women in industrial tasks; but there is no inherent impossibility in their taking up such employment nowadays quite successfully. And, in so far as the encroachments of machinery debase even the human factor merely to the level of machines, there results a specialisation of labour, and also of capital, that prevents an easy mobility of those indispensable factors of production from industry to industry. Under the circumstances, the special efforts to develop industries locally on the modern plan cannot prove quite so costly as *a priori* reasoning would at first blush suggest. For, capital and labour being specialised, production *must* go on, in the country with developed industries; and if her own market cannot expand to absorb the surplus production which was previously exported, she must continue to export to her old customers, even though she has to bear a part of the cost of special efforts made in that other country to develop *her* industries. For further elaboration of this argument, however, see *infra* the section dealing with the Tariffs.

therefore, force upon other people sufficiently helpless not to be able to refuse them, in order to obtain other commodities which they need for their very existence, which they can, but do not, and will not produce at home in required quantities. This is the fundamental vice of modern commercialism. Britain is the worst offender in that line, not so much because circumstances have forced upon her an economic organisation, which, viewed properly, makes her look inexorably as an overgrown beast of prey; but because some of her thinkers have so far suborned themselves to the rampant commercialism of their time, as to distort the whole scheme of relative values, in which a slum child becomes cheaper than a pekenese spaniel, and to misrepresent the very basis of a science. The force of repetition and the instinct of imitation can, apparently, work miracles. For not only have the English people, by dint of repetition of ancient formulas, made themselves honestly believe in their truth without searching the fundamentals of those formulas for themselves; but they have forced acceptance of these formuli in other countries, whose general organisation is a standing negation of the truth of these formuli, but who, nevertheless, even while they violate them, pay a lip-homage to them.

"Trade is determined by differences in comparative costs"

is one of those formulas and its corrollary, the so-called principle of the territorial division of labour, is another. If they are intrinsically unreliable, let us not, by slavish imitation, adopt them, if only as a blind. Let us not build up a system of production which can only flourish if we consent to banish the feeling of brotherhood from the world, if we accept an absolutely unnatural scheme of relative values of the things we need, if we decide to face the intelligible opposition of earlier vested interests, or, still more terrible, the just indignation of those who find in the undue development of our industies and our trade a wanton spoliation of their resources. Production for use only need not, cannot result in a chronic shortage; but it must not be definitely and intentionally directed to an unwanted surplus.

C

THE ENTREPÔT TRADE OF INDIA.

XXXI. The Magnitude of Entrepot Trade.

We have already remarked upon a peculiarity of the foreign trade of India all through the ages, viz., a steady business in the exports of foreign merchandise previously imported in the country. In the olden times this section of our trade consisted chiefly in the import of silk-goods and procelain from China, pearls from Ceylone, and precious stones and spices from the islands of the Eastern Archipelago—all for purposes of re-export to countries of the West; possibly also animals, principally horses, and woollen goods, Venetian glass and the like from countries of the West to be re-exported to the East. This feature of the Indian foreign trade still continues and, juged from figures, seems to be steadily growing. The subjoined table shows a growth during forty years. Though the re-exports of foreign produce from Indian ports seems to have declined in the last year under review, we find the volume of re-exports steadily growing from 2.8 crores in 1882-3 to 2·93[*] crores in 1902-3 and 18·04 crores in 1920-21. India managed in old to build up this entrepot trade because she was conveniently equidistant from the countries of the Far East and the farthest West—who had, between them, both absolute as well as relative differences in productive capacity. An analysis of the present day re-export trade of British India according to countries shows the following peculiarities.

1882-3	Rs.	2,80,27,100
1887-8	,,	4,10,14,400
1892-3	,,	4,59,02,900
1897-8	,,	3,75,11,720
1902-3	,,	2,93,56,620
1907-8	,,	2,76,74,355
1910-11	,,	3,26,10,500
1911-12	,,	6,02,71,500
1912-13	,,	4,74,90,660
1913-14	,,	4,66,73,194
1914-15	,,	4,10,66,910
1915-16	,,	4,84,50,830
1916-17	,,	8,08,95,105
1917-18	,,	9,12,03,660
1918-19	,,	14,55,63,030
1919-20	,,	17,77,80,120
1920-21	,,	18,04,34,870
1921-22	,,	14,06,34,125

	Br. Empire.	Br. Possessions.	Foreign countries.
1919-20	Rs. 8,04,03,520	Rs. 7,77,05,490	Rs. 9,73,76,600
1920-21	,, 7,77,05,490	,, 4,21,00,200	,, 10,27,29,380
1921-22	,, 9,64,13,059	,, 9,64,13,059	,, 4,42,21,066

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[*] This rise is much greter than it seems since the figures are originally in pounds from which they have been converted at the rate of Rs. 15=£ 1 As the artificial appreciation in the value of the rupee was the only reason for this rate of exchange, and as the Indian prices were still low, the volume of trade represented by this figure would be much greater than the value figure would indicate.

This shows a trade with the British Empire at least as large as the trade with other countries to which India serves like a base of operations. The British Empire trade may further be shown as follows:—

Possessions.		1910-20		1920-21		1921-22
United Kingdom	Rs.	3,82,90,100	Rs.	3,56,05,290	Rs.	3,25,39,965
European Possessions	,,	1,23,580	,,	28,460	,,	1,92,967
Asiatic ,,	,,	3,06,82,170	,,	1,72,64,280	,,	4,59,07,613
African ,,	,,	1.22,20.010	,,	1.45.98,170	,,	1,73,29,503
American ,,	,,	11,110	,,	65,590	,,	8,482
Australian ,,	,,	76,450	,,	1,33,700	,,	4,24,529

And the trade with foreign countries similarly analysed gives the same pre-ponderance to Asiatic countries,—our near neighbours with whom we have many special advantages to trade in.

Countries.		1919-20		1920-21		1921-22
European	Rs.	1,25,85.170	Rs.	1,04,06,750	Rs.	28,09,768
Asiatic	,,	7.93,73.390	,,	5,87,38,220	,,	2,18,57,908
African	,,	38,02,460	,,	25,03.180	,,	25,25,321
American	,,	16,15,580	,,	3,10,85,130	,,	70,28,094
Total...	Rs.	9.73,76,600	Rs.	10,27,29,380	Rs.	4,42,21,066

Nearly fifty per cent of the trade in re-exports of British and foreign merchandise imported into India is with Asia.

XXXII. THE ARTICLES OF RE-EXPORT.

The following table shows the articles re-exported.

	1919-20	1920-21	1921-22
	Rs.	Rs.	Rs.
I.—Food, Drink, and Tobacco—			
A. Fish (*excluding* canned fish)	11,69,770	11,52.130	14,69,183
B. Fruits and Vegetables	48.87,510	67.28,570	51,71,743
C. Grain, Pulse, and Flour	14,94,540	4,500	1,06,138
D. Liquors	9,62.790	6.41,500	5,05,310
E. Provisions and Oilman's stores ...	13.62,130	16,51.400	13,47,136
F. Spices	24,07,860	11,63,560	9,67,368
G. Sugar	3,56.80,750	6,17,75,380	1,70,96,135
H. Tea	9,98,200	2,78 940	1,13,433
I. Other Food and Drink...	11,14,720	12,30,750	7,27,183
J. Tobacco	17,09.060	16,64,000	9,53,389
TOTAL, CLASS I ...	5,17,87,330	7,62,90,730	2,84,57,018
II.—Raw Materials and Produce and Articles Mainly Unmanufactured—			
A. Coal, Coke, and Patent fuel ...	15,360	21,610	13,09,113
B. Gums, Resins, and Lac...	25,02,420	25,84,820	23,94,655
C. Hides and Skins, raw	5,300	59,56 020	28,12,261

	1919-20	1920-21	1921-22
	Rs.	Rs.	Rs.
D. Metallic ores and scrap *iron or steel* for remanufacture...	15,100	14,340	1,51,740
E. Oils	8,16,640	14,87,490	6,92,164
F. Seeds	66,480	7,300	50,578
G. Tallow, Stearine, and Wax	5,300	32,840	68,998
H. Textile materials	1,65,45,950	1,07,48,080	1,58,55,672
I. Wood and Timber	1,53,350	2,42,440	76,458
J. Miscellaneous	17,28,660	17,46,170	15,69,252
TOTAL, CLASS II ...	2,18,54,560	2,28,51,110	2,49,80,891
III.—Articles Wholly or Mainly Manufactured—			
A. Apparel	45,25,740	55,34,880	87,86,056
B. Arms, Ammunition, and Military stores	1,21,930	1,41,930	1,50,732
C. Carriages and Carts, *including* cycles and motor cars.	15,93,240	18,72,680	22,08,648
D. Chemicals, Drugs, and Medicines ...	40,10,420	26,94,850	16,36,859
E. Cultlery, Hardware, Implements(*except* machine tools), and Instruments ...	45,06,920	45,95,710	47,57,983
F. Dyes and Colours	7,94,620	5,94,110	10,81,723
G. Furniture, Cabinetware, and manufactures of wood	5,28,740	14,10,470	14,52,976
H. Glassware and Earthenware	26,78,250	23,77,230	22,81,872
I. Hides and Skins, tanned or dressed, and Leather	3,01,930	8,10,530	21,45,653
J. Machinery of all kinds, *including* belting for machinery	18,35,380	13,09,600	21,15,458
K. Metals, Iron and Steel, and manufactures thereof	16,41,400	19,58,320	12,59,609
L. Metals, other than Iron and Steel, and manufactures thereof	33,29,590	19,52,720	7,40,635
M. Paper, Pasteboard, and Stationery ...	12,62,390	10,87,750	14,98,929
N. Railway plant and Rolling-stock ..	55,820	17,470	91,703
O. Yarns and Textile fabrics	6,47,23,750	4,51,15,510	4,79,14,911
P. Miscellaneous	59,05,220	38,84,530	49,50,923
TOTAL, CLASS III ...	9,78,22,340	7,53,58,290	8,30,74,670
IV.—Miscellaneous and unclassified ...	63,15,890	59,34,740	41,21,546
TOTAL ...	17,77,80,120	18,04,34,870	14,06,34,125

The largest section is that of foreign manufactures. The ancient *entrepôt* trade of India, as we have seen before, was that of the manufactures of eastern lands to the west and *vice versa*, and the same general feature continues to-day. But the importance of this trade and its peculiarity must be realised.

It cannot be regarded as a source of particular strength to India, since Indians have no share in this trade either as carriers, financiers or even merchants, though, in connection with the re-export trade to Asiatic and African countries, Indian merchants are not utterly left out. But in proportion as trade rivalry again stiffens; and the manufacturers scrutinise and scale down costs and overhead charges, they would try to eliminate all middlemen in their attempt to deal directly with the consumer. This is a risk affecting the whole of our re-export trade, since direct routes are now much more feasible and even more cheap than formerly. This foreboding, it must be confessed, is not supported by the steady growth in that trade so far. But perhaps hitherto the trade rivalry was not quite so severe as to compel manufacturers to devise means of direct relations with the consumers. * A much more effective explanation may probably be found in the fiscal policy of India, which, being free-trading on the whole, made the importer less anxious about needlessly adding to the overhead charges of goods that may have to be eventually exported. But the argument of the possible loss of a re-export or *entrepot* trade could only be advanced to affect the fiscal policy in a country which derived some advantage from such a trade. England may justly feel anxious about her re-export trade, for example, since she not only finds herself a convenient halting station, suitable for a base of distribution for goods coming from the East and the West †; but she has vast interests at stake in the prosperity of her bankers and ship-owners and merchants in general, who earn hundreds of million sterling per annum just from this intermediary business. But India and Indians have no such gains to expect; and the preservation or promotion of the *entrepot* business cannot, therefore, be a very serious argument affecting our fiscal policy in a Free Trade direction.

XXXIII. NATURE OF ENTREPÔT TRADE.

It is of the essence of an Entrepôt trade that it should consist chiefly in articles of special production or manufactures of foreign countries, which, for geographic or allied reasons of trade organisation, have to be halted at an intermediate station from whence they are re-exported. The character of a country's fiscal policy cannot materially affect such a trade; for in every civilised commercial country, whatever the fiscal policy may be, there will be a system of refunds of duties on goods re-exported from the country—a system facilitated a great deal by the adoption of the bonded warehouse. But even apart from the fiscal policy, the entrepôt trade has an interest and an importance of its own. There are hints of further development, which may not quite be appreciated to-day, but which are bound to affect our future trade very substantially. The countries of Asia and Africa, which now import their European and other requirements *via* India, may be approached directly by the agents of the manufacturers to deal without an itermediary. But these countries are, speaking generally, relatively poor. They may, indeed, find that direct trade with manufacturers very considerably reduces the cost to them; and so agree to or acquiesce in the diversion. In her modern entrepôt trade, India has not such deep-rooted interest as to make her services or interposition indispensable. But India, in face of this danger, may unexpectedly obtain another advantage. Indian manufactures, when they develop, would be of relatively inferior, and, therefore, presumably, of a cheaper sort, at least in the earlier years. It has been stated above that India must not attempt to build up her manufactures with artificial aid for purposes of dumping them upon foreign countries, more backward or less advantageously situated than herself. But without denying every people's right to develop their resources to the utmost limit; without organising one's industry largely if not entirely for export trade, we may yet expect the Indian manufactures to replace the European goods in the Asiatic and African markets at least, which are now catered for by re-exports from India. The following comparative table of the exports of Indian manufactures and produce, and those of foreign origin will serve to explain the view-point of this section more fully.

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* Already in 1913, however, there were indications that the German manufacturers had perceived the wastefulness of this arrangement, and were considering the possibilities of a direct appeal. I was touring Germany and Austria in the summer of 1913 with an Indian merchant of caps, velvets etc and in my conversations with the manufacturers of Rhineland, with the bankers of Hamburg, and with the ship-owners at Trieste, I found a common anxiety to devise means to establish direct relations with the consumers.

† While the main trade routes went round the Cape of Good Hope, or crossed the Atlantic to America there was a good deal of force in the suggestion which regarded Britain as a centre for distribution, though even there Portugal was better placed. Since the opening of the Suez Canal this argument can scarcely apply especially in view of the high grade transport efficiency in the central European countries.

	Countries.	Exports of Indian produce &c. 1919-20	Exports of Indian produce &c. 1920-21	Exports of Indian produce &c. 1921-22	Re-Exports of Foreign goods. 1919-20	Re-Exports of Foreign goods. 1920-21	Re-Exports of Foreign goods. 1921-22
		Rs.	Rs.	Rs.			
British Possessions.	*Asia* :—Palestine	...	...	43,117			
	Aden &c.	1,98,89,020	2,25,03,950	1,57,60,459	1,23,37,840	1,10,57,700	1,11,98,220
	Mesopotamia...	...	...	2,81,66,252	...	...	1,71,57,449
	Bahrein	82,98,180	1,16,90,310	1,05,42,753	56,33,590	45,58,540	40,38,015
	Maldives	9,98,310	7,89,820	7,14,583	20,110	16,810	26,108
	Ceylone	10,79,29,480	11,38,54,110	11,56,63,885	45,75,010	49,89,050	74,48,687
	Straits Settl....	7,25,28,330	8,71,11,610	7,43,83,359	32,69,070	38,01,470	24,58,853
	Malay States...	24,13,480	86,62,910	17,90,880	10,88,740	1,97,850	1,09,623
	Borneo	3,68,990	4,81,370	3,21,347	120	680	...
	Papua...	350	230	...	...	...	...
	Hongkong	8,71,47,520	7,12,76,780	6,30,46,066	38,62,690	26,92,180	34,69,643
	Total Asia ...	29,95,73,860	31,67,70,790	30,94,33,301			
	Africa : Egypt	3,30,20,870	3,24,95,480	2,04,06,552	50,24,950	54,55,370	18,28,638
	Gold Coast	...	2,320	2,771	...	...	...
	N. Nigeria	...	...	41	...	...	...
	Cape of Good Hope	31,38,290	46,90,260	43,63,106	44,380	13,320	31,110
	Natal...	97,88,650	1,30,09,660	1,40,52,231	2,49,010	4,73,800	34,23,934
	Transvaal	13,93,100	17,20,440	8,17,772	10,980	21,180	13,314
	Rhodesia	3,98,970	6,50,180	2,65,601	...	...	...
	Zanzibar	44,96,480	47,21,610	53,16,166	16,95,290	18,13,490	24,36,982
	Kenya	86,26,480	97,26,340	66,65,711	33,51,650	54,93,410	51,09,787
	Tanganyka	...	...	20,91,494	...	...	9,58,002
	Uganda	...	...	3,450	...	...	...
	Somaliland	7,40,110	3,37,900	7,02,618	1,11,680	21,480	1,16,672
	A. E. Soudan	...	...	32,79,927	...	...	26,99,103
	Mauritius &c.	1,27,19,430	1,77,13,020	1,98,40,953	5,06,380	11,50,230	5,75,807
	Seychelles	6,48,550	6,63,370	6,65,667	2,25,790	1,55,890	1,46,154
	Total Africa ...	7,49,70,930	8,57,30,580	7,84,74,060			

Countries.		Exports of Indian produce &c.			Re-Exports of Foreign goods.		
		1919-20	1920-21	1921-22	1919-20	1920-21	1921-22
	Foreign Countries.						
Asia:	Turkey	...	...	18,76,022	...	...	15,254
	Levant	58,46,090	22,19,9[illegible]0	...	17,51,830	4,66,360	...
	Red Sea	1,00,77,280	1,30,55,360	...	29,05,790	33,80,360	...
	Persian Gulf...	3,62,12,590	2,84,83,970	...	3,06,80,350	2,35,03,550	...
	Muscat and Arabia	1,34,75,170	1,61,15,300	2,54,04,749	88,19,500	74,14,600	1,01,88,710
	Persia	2,65,13,800	2,00,13,760	2,17,42,326	2,63,65,350	1,95,91,190	1,25,94,720
	Java and Sumatra	2,09,96,820	3,10,29,820	4,49,20,616	6,34,120	24,21,440	17,60,446
	Siam...	1,18,75,930	99,72,480	1,62,18,596	3,01,790	2,56,330	4,96,737
	Indo-China	1,08,84,310	1,44,98,370	2,21,86,076	12,220	21,430	46,626
	China...	11,85,16,320	8,51,86,680	11,07,79,252	19,22,670	8,45,360	5,71,253
	Japan...	46,26,63,5[illegible]0	24,15,96,700	38,08,99,994	59,68,390	7,95,430	58,72,851

With the exception of Persia and the countries served through the littoral of the Persian gulf—which seem to take the native Indian produce with the re-exports of India in almost equal proportions,—almost every one of these countries, whether within or outside the British Empire, take far more of the native goods of India than her foreign re-exports. Indian manufactures may thus seem to have a good chance in these countries for future development and a possible method of reconstruction of our entire trade on the lines followed through the centuries. But even if that aspect of trade development is unacceptable, the significame of this feature of our trade lies in the consideration of the true *hinterland* of India. There are countries which can only be served through India, since they have no direct access to the sea, and the quickest, or cheapest if not the nearest approach to which must be through India. This point, however, would be best discussed in our next section—the Land Frontier Trade of India.

D

XXXIV. THE TRANS-FRONTIER LAND TRADE OF INDIA.

The importance of the transfrontier land trade pales into insignificance, when we think only of the volume and values as at present; and contrast the land frontier trade with the sea-borne trade in those particulars. The total frontier trade is barely 5 p. c. of the sea-borne trade, though India has a land frontier of 6800 miles. For the most part, however, and for all purposes of trade across these boundaries, this frontier may be taken to be composed of impenetrable forests and inscalable mountains across which trade is almost impossible. Where the forests and the mountains permit of a passage, trade routes have flourished from the earliest times; and even to-day continue to occasion quite considerable trade. The frontiers accessible to possibilities of commerce have been further improved by railway construction; which, though originally constructed for purely destructive purposes of military defence or aggression, are yet capable of being converted as excellent handmaids to the requirements of transfrontier movement of goods. To understand the significance of these figures let us consider the following figures of the Frontier Trade of India.

(In Lakhs of rupees.)

		Imports	Exports	Net Imports
1895-6	Rs.	4,85	4,06	78
1900-1		7,09	6,57	52
1905-6		9,48	7,35	2,13
1909-10		8,45	6,82	1,63
1910-11		9,19	7,43	1,76
1911-12		10,38	8,83	1,55
1912-13		11,50	10·47	1,03
1913-14		12,02	9,42	2,60
1914-15		11,42	9,49	1,93
1915-16		11,98	9,50	2,48
1916-17		12,82	10,35	2,47
1917-18		14,75	13,26	1,49
1918-19		15,96	14,88	1,08
1919-20		17,02	15,92	1,10
1920-21		18,16	15,81	2,35

The following table gives a list of the principal countries of our transfrontier trade, with the imports from and exports to them.*

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* These figures are in thousands of rupees, and for the years 1913-14 and 1920-21. They are taken from the annual Review of Trade for 1920-21.

Countries.	Imports from.		Exports to.	
	1913-14	1920-21	1913-14	1920-21
Afghanistan	1,28,84	1,32,85	1,52,33	1,54,32
Dir, Swat, Bijaur	78,19	41 41	86,77	82,41
Central Asia	13,33	47 72	18,18	85,83
Persia	2,62	35,87	21,63	1.05,30
Nepal	4,32,75	5,96 93	2,04,80	2,82,03
Tibet	33,23	61,32	19,62	31,34
Sikkim	30,89	55,94	16,01	15,08
Bhutan	20,68	11,73	17.66	7,61
Shan States	2.01.66	3,98,36	1.82,70	5.17,44
Western China	28,92	66,27	56,15	1.01.40
Siam	43,92	50 01	16,58	24.06
Karennee	24,53	30,11	5.54	4.69

XXXV. THE HINTERLAND OF INDIA.

The five countries that most import from the stand point of the volume of trade, are:—Nepal, the Shan States, Afghanistan, Persia and Western China. With the exception perhaps, of Persia these are all countries for whom India is the natural, because the nearest market for buying and selling; and for India they form a natural **hinterland** of immense possibilities, practically undeveloped yet. The mineral and other superficial natural resources of these countries are yet unknown, but the growth of trade with them will in all probability bring them out.* The ancient barriers of mountains rendering the passage of heavy goods impracticable profitably are now of dwindling significance; since India has pushed her railways right up to the frontiers; and a similar response from the adjoining frontier countries is only a question of time where not already afforded.† With growth of these means of relatively cheap transport in bulk, or with the improvement of roads to suit modern devices of quick transport suitable for trade in smaller lots, the whole of the region beyond the Indus and the Brahmaputra, beyond the Himalayas and the Hindukush, would become the natural hinterland of India. With the exception of Persia, none of these countries have a sea-board of their own; and, with direct rail or road connections with India, the Indian ports of Karachi, or Bombay, or Calcutta even, would be nearer than the ports either of China or of

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* India, as we know of it to-day, is, for example, incapable of producing all the coal that she herself might want. China in the west is reported to have immense coal resources, not yet tapped. India is deficient in iron ore; China can remedy that deficit, and, still more Central Asia. Gold, if we need and cannot get it by trade, is producible in Tibet, while wool, and hides may be had from Nepal and Tibet, and Persia in the abundance we want.

† According to the latest advices, Afghanistan, at least, seems to have realised the value of trade with India, and the innovations of the present Amir may quite possibly revolutionise that country's trade and industry to the mutual profit of India and Afghanistan.

Arabia. If these countries, therefore, have any surplus production of their own which they seek to dispose of in Africa or Europe or Australasia, they must ship these goods through India. And as for some years or generations to come, these countries would want the mechanical appliances for the development of their own resources to perfection, the transit or entrepot trade in these articles alone will be quite considerable for India. We fully realise the essential weakness of a merely distributing agency; and the trade above mentioned would be really in the nature of distributing agency only. But for a time at least that would be inevitable; and the gain from it to India would be objectionable only if Indians overlook the true character of this trade, and seek to make it a permanent source of an unearned increment to themselves. The real value of a Hinterland goes, indeed, to ports or outlets, and not to the intermediate region traversed in the transit of goods from a point in the hinterland to a port on the seacoast. * But the ports would add to their own prosperity only and in so far as they remove or minimise every possible obstacle in the transit of goods. And even apart from the mere transit trade through India to more distant regions, a normal, regular, inter-regional trade in genuine surpluses and specialities may flourish in much greater abundance if the means of rapid transport were perfected more than is the case to-day. The construction of a through railroad between Europe and Asia reaching to the farthest confines of either may not, probably will not, replace or destroy the shipping business; since marine transport will necessarily remain cheaper than rail or road transport. But such through communication would have its own trading utility to adjacent countries at least, if not to the lands on the remotest extremes. The Hinterland itself may be altered; but the alteration need not cause any heart burning, if we understand the true origin and significance of trade between regions. † For years, if not generations, to come, however, India may safely promise herself a substantial and profitable trade with countries on her borders and their neighbours beyond, if she takes care to develop, or utilise properly where already developed, suitable means of transport for the accommodation of this transfrontier trade and its steady development. It is possible—nay quite probable, that even if India does not deliberately intend her changing fiscal policy in regard to trade as a danger signal

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* The opening up of through railway communication between the mainland of Germany and the Austrian port of Trieste, for example, besides giving a fatal blow to the trade of Venice on the opposite coast, certainly did contribute to the prosperity of the intermediate Austrian regions but not in the same proportions. It is an interesting speculation, if not a proposition in practical politics, to inquire what would be the fate of the Northern German ports, like Hamburg or Bremen, which are relatively costlier to maintain open for traffic all the year round, if Austria and Germany had been one territory, and no national sentiment involved in attending specially to the costlier northern ports in preference to the easier and more natural southern ports.

† The fierce rivalries and animosities in connection with the pre-war German project of a through railway from Berlin to Bagdad would be intelligent if we remember the misconception in regard to the nature of international exchange, and insignificant if we determine to promote trade only on its genuine natural lines.

to the other trading nations of the world—in that India will not and must not reorganise merely to capture the export trade of her erstwhile exploiters in the neutral market—those others may take fright by this simple manœuvre for protecting local industry and preserving local markets; and some portion of India's trade may suffer—at least for a time,—in consequence. If so, India will find an ample compensation in this her transfrontier trade; and the wisdom and the foresight of those responsible for the industrial and commercial prosperity of the country will be measured in accordance with their ability or promptitude in seizing upon such obvious directions for compensation. It is not intended to imply by this suggestion that the countries on the frontier we trade with, have no right to develop their own resources,—no right to adopt the same defensive measures we are contemplating ourselves, for their own protection, and against Indian wares. But we have already postulated that the reshaping of India's industry must not be based on the idea of developing exports of manufactures for dumping abroad; and so we need not apprehend excessively the force of this contention. The pressure to develop or utilise frontier communications is thus not merely a political suggestion to secure military efficiency; though, of course, hitherto, the latter has been the only reason for constructing unproductive railroads on the frontier. Concentrating on the possibility of trade developments by this means, we may not only make our present wasteful and losing assets of railways on the frontier a commercial success; but incidentally we may bring about a much fuller development of our own and our neighbours' regions[*] by a more natural delimitation of trade.

XXXVI. THE ARTICLES OF FRONTIER TRADE.

We may next examine the articles principally entering into our transfrontier trade; and see if in the list subjoined of the principal commodities of such trade we can find any indication at present to justify the hopes aroused above for a reorganisation of the frontier trade as a replacement of a possible loss of foreign trade. It is conceivable, of course, that under the present misconception of the nature and utility of international exchanges, the seed of a future compensation against the possible loss of a portion of our present-day trade may not be traceable. It is certain that we cannot foresee all the consequences of future developments of intense exploitations of local resources by each region. But, admitting these limitations on the utility of a closer study of our frontier trade to-day, we may yet consider—if only for the sake of a fuller comprehensiveness of our study—the articles now figuring in that trade. The following table gives a list of those articles and their values.

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[*] The North Western Railway, originally a mere military venture constructed for the movement of troops, is now one of the most crowded lines, at least at certain seasons of the year, thanks chiefly to the construction of canals in the Punjab that brought heavy wheat traffic to this line for shipment at Karachi.

* *Frontier Trade—Values of Principal Articles.*

(In thousands of rupees)

	1913-14.	1917-18.	1918-19.	1919-20.	1920-21.
	Rs. (1,000)	Rs. (1,000)	Rs. (1,000)	Rs. (1,000)	Rs. (1,000)
Imports.					
Grain and Pulse	2,14,20	1,92,27	2,64,71	2,07,63	2,52,00
Fruits, Vegetables, and nuts ...	64,81	1,11,63	1,03,14	2,84,89	1,93,64
Metals and manufactures thereof	20,25	2,80,78	1,28,78	1,09,58	1,61,63
Wool, raw...	1,05,47	1,44,51	1,49,16	1,28,89	1,18,98
Provision—					
Ghi (clarified butter) ...	72,44	56,27	61,59	87,00	86,77
Pickled tea (letpet)... ...	33,40	29,26	33,60	34,70	36,73
Tea...	25,97	28,75	33,56	33,41	40,96
Spices	23,33	22,50	25,14	23,19	21,03
Animals, living (for sale)—					
Cattle...	89,47	31,94	26,23	45,99	55,11
Other animals	70,52	65,57	56,47	51,07	80,13
Seeds	50,44	38,31	57,18	90,99	78,41
Silk, raw	18,19	37,47	83,58	73,95	57,98
Wood—					
Timber, teak...	46,12	22,95	27,01	35,75	36,45
Timber, other than teak ...	12,34	19,08	20,67	11,90	53,30
Hides and Skins	64,80	39,10	44,32	41,14	38,39
Jute, raw	36,31	20,82	25,82	21,84	28,88
Drugs and medicines	13,16	17,00	16,85	16,62	22,73
Tobacco	13,39	15,05	12,04	16,23	22,60
Exports.					
Cotton, piecegoods—					
Foreign	2,77,28	2,92,93	3,32,27	3,44,64	2,73,65
Indian	64,76	1,05,92	1,55,76	1,79,04	1,06,31
Cotton, twist and yarn—					
Foreign	44,85	47,50	64,35	61,74	42,37
Indian	16,74	60,76	1,04,19	1,07,53	73,99
Cotton, raw	7,59	3,57	10,03	19,62	36,93
Metals and manufactures thereof	64,40	1,66,50	1,10,11	1,92,9[illegible]	2,24,94
Grain and Pulse	20,48	24,53	29,03	39,51	1,29,20
Provisions...	38,79	44,75	50,39	62,65	58,15
Sugar	26,64	47,85	81,28	49,37	96,45
Spices	30,00	28,23	31,94	35,08	34,44
Salt	24,60	31,10	33,24	31,13	30,89
Tea...	16,84	13,68	28,17	22,13	14,31
Oils	23,70	37,51	47,72	79,82	74,14
Railway materials	48	55,30	25,98	43,64	64,46
Dyeing materials	8,61	10,59	16,73	21,80	26,93
Animals, living (for sale) ...	12,32	12,71	14,13	14,97	19,80
Tobacco	13,83	19,67	20,34	20,81	19,37
Leather	18,61	24,25	24,30	22,72	18,54

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* This is Table No. 83 appended to the annual Review of the Trade of India for 1920-21 published by the Government of India.

Re-stating this table in the more compendious classification adopted in the Trade Returns of the Government of India, we find that the imports schedule consists almost wholly of food-stuffs and raw materials. Silk, and wool, and jute, and hides, and seeds, and metalware, are all raw materials for further manufacture; while grain and pulse, *ghi* and tea, spices and fruits, vegetables and nuts are in the class of food-stuffs. Tobacco figures on both sides of the account in almost equal quantities, and may therefore be left out of the consideration. On the export side, manufactures predominate, cotton leading off with an appreciable margin, while metalware, railway plant, and oils are hot competitors for the next places in the schedule. In the case of cotton manufactures, while the foreign piece-goods have no doubt maintained their ground, the Indian share has been steadily growing till it shows a 70% increase in 1920-21—which is not the highest figure in the table. In twist and yarn, while the foreign produce shows a slight decline of about 4% in value, the Indian contribution shows an increase of nearly 60%. Does this give any indication of a possible future development? The exports of raw cotton are steadily increasing, till they are nearly five times as much as in the pre-war year; and that may possibly indicate a legitimate feeling on the part of our present customers for cotton goods to produce their own requirements. We cannot quarrel with this desire; and we may not even feel that we command the only raw material they can either use or obtain. India will, however, have an advantage of a surplus of production in this regard; and there is no doubt that the trade in this direction will not suffer, but will go on improving in future. On the other hand, it may be noticed that while raw silk and raw wool form substantial items in the import schedules, the corresponding manufactures are nowhere mentioned. If India develops manufacture of these, she will have to find markets for these manufactures among her own people, or in countries beyond the seas, since her transfrontier neighbours are unwilling or unable to buy them either because they have their own methods of manufacturing to meet their own needs, (in woollens). or because they are too poor to afford them. It may even be that a keener national consciousness may make them perceive their inherent advantage in the possession of the raw material and suggest the advisability of its manufacture on a modern scale themselves. India should not expect them to be always condemning themselves to produce the raw material only for Indian mills, and must consequently be prepared to find alternative sources of raw material within her own borders or elsewhere, if she is intent upon developing these manufactures herself. There is not much ground for apprehension in regard to silk, but the case of wool is different. Leather goods, on the other hand, form a somewhat curious item, as import, hides and skins averaging 45 lakhs and export leather goods of the value of 22 lakhs. India has great possibilities for leather industry, owing to her own resources of raw material; but a trade in export of leather goods from India to such countries cannot be absolutely depended upon as an item of near future development. Sugar is a speciality on the export side, averaging Rs. 60 lakhs in the table above, and showing a steady growth. It is possible India may be their only source of sugar supply.

The following table gives a more detailed view of the trade with our principal transfrontier customers:—

(Figures are in thousands of Rupees.)

NEPAL

Imports.	1913-14	1920-21	Exports.	1913-14	1920-21
Cattle	33,99	29,80	Twist & Yarn ...	21,42	22,72
Dye-stuffs	8,67	15,61	Piece goods ...	75,83	103,13
Fruits, Vegetables & nuts	7,26	68,78	Metals & metal-ware	19,83	22,31
Rice: husked	68,97	82,61	Oils	10,39	11,63
„ unhusked ...	90,39	1,09,53	Salt	12,02	14,90
Hides of cattle ...	20,67	7,04	Spices	11 99	18,56
Jute (Raw)	36,23	28,88	Sugar	10,24	17,67
Ghi	31,86	54,61	Tobacco	7,45	9,08
Linseed	9,53	16,36	All others ...	35,63	62,93
Mustard & rape ...	30,98	49,05			
Spices	12,60	11,19			
Tobacco	12,37	16,97			
All other articles ...	69,23	106,50			
Total ...	4,32,75	5,96,93	Total ...	2,04,80	2,82,03

AFGHANISTAN.

Imports.	1913-14	1920-21	Exports.	1913-14	1920-21
Fruits, Veg. & Nuts...	26,15	47,81	Cotton :		
Hides & Skins ...	4,68	4,00	Twist & Yarn	6,22	2,32
Ghi	11,20	8,91	Piecegoods...	84,80	77,76
Wool (Raw)	74,36	51,35	Leather	9,60	3,87
All other articles ...	12,45	20,78	Metals & metal-ware	5,24	46
Total ..	1,28,84	1,32,85	Sugar	7,00	33,27
			Tea	12,30	4,73
			All others ...	28,17	26,91
			Total ...	1,52,33	1,54,32

SHAN STATES.

Imports.	1913-14	1920-21	Exports.	1913-14	1920-21
Horses, Ponies, Mules	7,75	2,52	Cotton :		
Cattle	29,75	11,93	Twist &c.	12,39	13,16
Fruits, Veg. & Nuts...	13,96	36,85	Piecegoods ...	65,46	54,77
Rice-husked	5,64	3,55	Grain & Pulse ...	1,57	26,34
Lac	1,71	7,84	Metals & metal-		
Metal, & Metal ware...	16,84	1,43,49	ware	30,69	1,87,03
Pickled Tea	33,29	36,68	Oils	7,75	54,83
Tea foreign	24,18	39,51	Fish (Wet) ...	7,54	12,13
Wood	12,89	13,39	,, Dry ...	7,67	7,87
Cigar Wrapper ...	...	26,90	Railway material	48	64,46
All other articles ...	55,65	75,70	All others... ...	49,15	96,85
Total ...	2,01,66	3,98,36	Total ...	1,82,70	5,17,44

In each one of these instances the peculiarity is impossible to overlook that trade is so uncertain and varying that the countries in question must be taken to be still undeveloped. If this remark has to be ventured on for the best of our customers, what can be said of those other countries, the trade with which does not exceed 20 or 30 lakhs? In each of these cases, moreover, communications are either yet undeveloped, or unavailable for free commercial purposes. Nepal, Afghanistan, Shan states, Persia, Central Asia, Western China have all immense possibilities of trade with India; and for this future to be realised, the first need is a better, fuller development of means of communications. For here is an instance where the ordinary rule may be said to be reversed. It is not the existing trade which demands ampler communications; but rather it would be the better communications that would bring about larger trade.

XXXVII. COASTING TRADE OF INDIA.

For the sake of convenience in discussion, if not quite for the sake of logical grouping, we may discuss here the coasting trade of India. It is not necessarily the same as foreign trade across the seas, since the articles sent up and down are more common between the different parts of the same country. But the volume of the trade is much too considerable—over 200 crores, not to deserve a special separate treatment, even if, essentially speaking, it is of the nature of inland exchange. The subjoined table gives a view of the qualitative importance of that trade

	IMPORTS			EXPORTS		
	Merchandise	Treasure	Total Imports	Merchandise	Treasure	Total Exports
	R (lakhs)	R (lakhs)	R (lakhs)	R (lakhs)	R (lakhs)	R (lakhs)
1909-10	53,35	90	54,25	51,40	92	52,32
1910-11	54,59	58	55,17	49,18	60	49,78
1911-12	53,80	39	54,19	49,70	36	50,06
1912-13	58,07	53	58,60	55,59	53	56,12
1913-14	63,21	97	64,18	55,51	78	56,29
Average of 5 years ending 1913-14 ...	56,60	68	57,28	52,28	64	52,92
1914-15	57,87	46	58,33	52,85	32	53,17
1915-16	56,78	48	57,26	52,46	29	52,75
1916-17	60,28	34	60,62	53,27	29	53,56
1917-18	64,62	99	65,61	54,39	74	55,13
1918-19	87,57	74	88,31	67,75	75	68,50
Average of 5 years ending 1918-19 ...	65,42	60	66,02	56,14	48	56,62
1919-20	1,14,52	81	1,15,33	1,00,35	1,02	1,01,37
1920-21	1,12,26	1,01	1,13,27	94,98	96	95,94

The next two tables show the principal articles that go to make up these Imports

Coastwise Imports from British India of principal articles of Indian Merchandise.

ARTICLES		Quantity (in thousands)					Value (in lakhs of rupees)				
		1913-14 Pre-war year	1917-18	1918-19	1919-20	1920-21	1913-14 Pre-war year	1917-18	1918-19	1919-20	1920-21
							R (lakhs)	R (lakhs)	R (lakhs)	R (lakhs)	R (lakhs)
Coal	tons	1,604	252	235	404	1,084	2,21	65	75	1,27	3,17
Cotton—raw	,,	94	97	86	85	85	7,57	12,07	17,28	13,79	12,30
,, Twist and yarn ...	lbs.	32,512	19,065	21,696	26,340	38,999	1,67	1,57	2,80	3,57	5,76
,, Piecegoods—grey ...	yds.	152,644	130,683	102,549	168,871	200,578	2,60	3,33	3,35	7.0	9,38
,, ,, white ...	,,	6,623	9,208	7,897	11,443	4,932	15	32	38	60	31
,, ,, coloured, printed or dyed ..		60,470	48,35[illegible]	50,870	63,901	56,775	1,37	1,44	2,06	3,23	3,17
Rice in the husk	tons	312	61	33	54	73	2,17	41	19	52	68
,, not in the husk	..	721	522	841	1,747	1,146	8,06	5,56	14,03	32,12	23,15
Jute—Gunny bags	no.	78,964	20,613	58,985	47,250	54,906	2,82	1,30	3,37	2,53	2,50
Kerosene oil	gals.	104,178	104,855	115,027	104,024	100,176	3,88	4,11	4,97	5,08	5,26
Wood—Teak	cubic tons	122	116	88	136	195	1,54	1,92	1,72	2,65	3,92

Coastwise Exports from British India of principal articles of Indian Merchandise.

ARTICLES		Quantity (in thousands)					Value (in lakhs of rupees)				
		1913-14 Pre-war year	1917-18	1918-19	1919-20	1920-21	1913-14 Pre-war year	1917-18	1918-19	1919-20	1920-21
							R (lakhs)	R (lakhs)	R (lakhs)	R (lakhs)	R (lakhs)
Coal	tons	2,299	227	110	223	1,410	2,17	23	12	27	1,78
Cotton—raw	..	28	42	32	51	34	2,16	4,76	5,21	6,83	4,09
,, Twist and yarn ...	lbs.	34,148	21,660	23,019	30,213	39,425	1,77	1,61	2,71	3,76	5,32
,, Piecegoods—grey ...	yds.	132,494	98,888	83,924	156,202	188,598	2,15	2,30	3,06	7,04	6,02
,, ,, white	,,	4,771	6,405	5,101	10,983	7,131	9	18	24	45	37
,, ,, coloured, printed or dyed	,,	76,287	68,766	53,151	97,950	66,846	1,76	2,19	2,28	4,95	4,15
Rice in the husk	tons	306	61	52	88	95	2,14	40	30	78	91
,, not in the husk	,,	712	578	927	1,920	1,097	7,49	5,81	10,57	25,79	1849
Jute—Gunny bags	no.	80,878	36,832	50,045	46,719	55,728	2,78	1,40	2,39	2,21	2,35
Kerosene oil	gals.	111,042	108,677	119,138	108,669	106,078	3,74	3,71	4,14	3,92	3,61
Wood—Teak	cubic tons	134	140	112	177	214	1,23	1,62	1,28	2,01	2,96

> "The chief interest in the trade attaches to the exchange of commodities between Burma (whose coastwise trade balance, be it noted, is invariably favourable, the exports exceeding the imports) and India proper. Rangoon imported in 1920–21 cotton twist and yarn to the value of Rs. 2,81 lakhs and cotton piecegoods to the value of Rs. 2,32 lakhs chiefly from Bombay and Calcutta; jute goods to the value of Rs. 1,92 lakhs and coal worth Rs. 1,06 lakhs, almost entirely from Calcutta; grain and pulse worth Rs. 1,17 lakhs. There is also an interesting item of leaf tobacco weighing 12½ million lbs, (as compared with 16 million in 1919 20) and valued at nearly Rs. 40 lakhs, of which Bengal supplied 11 million lbs and Madras the balance of 1½ million. In return, Burma supplied India with 970,000 tons of rice to the value of nearly Rs. 15¾ crores, as compared with 1,750,000 tons valued at Rs. 22¼ crores in 1919-20. India's purchases had been surprisingly low during the opening months of the year under review, but when control of the inter-provincial rice trade was released in January, 1921, the trade revived and by the end of the year Bombay (as usual the principal purchaser) had taken 512,000 tons, Bengal 254,000 and Madras 181,500. India is very largely dependent on Burma for her supplies of kerosene, benzine and petrol, which rank second to rice in order of importance. Of Burma kerosene, 51 million gallons were exported to Bengal, 22½ million to Bombay, 20 million to Madras and 6½ million to Sind. India's purchases thus totalled 100 million gallons in 1920-21 as compared with 150 in 1919-20 and 117 in 1918 19. On the other hand Burma's exports of benzine and petrol increased from 8½ million gallons in 1918–19 to 10 million gallons in 1919–20 and nearly 15 million gallons in the year under review. Teak wood was exported in large quantities from Burma to India."[*]

In connection with the coasting trade, we may also notice two facts of cardinal importance to the future trade development of India. India has an extensive coast-line; and, though not quite as indented as that of Britain for example, that coast line is amply provided with harbours. The ports, equipped with the most modern devices of handling and dispatching trade are, indeed, very few in proportion to the trade of the country. Bombay, Calcutta, Kurrachee, Rangoon and Madras finish the tale of the first-rate Indian ports, capable of harbouring all the year round the largest vessels; and even of these, only three are sea-ports proper, Calcutta and Rangoon being only riverain trade centres. This is a peculiar feature of the modern age; for in olden times India had a great many ports.[†] The ancient Indian ports of Broach, Surat, Cambay,–to mention only a few on the West coast alone—have been suffered to be silted up and decay owing to a deliberate policy of port destruction by the railways, which led to concentration of business at only a few centres convenient to the railways. We shall have more to say in a later section about the Indian railways, and the possible means of alternative communications. Here we must only observe that a proper attention to suitable ports on the coast would not only have taken away the pressure on our railways and made them more effectively serviceable; but also made the trade more diffused, and the possibility of general benefit much greater in consequence.

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[*] Annual Review of the Trade of India for 1920-21 pp. 34–35.

[†] Abdul Razak in XV century mentions 300 ports as large as Kalikot in the kingdom of Vijayanagar alone. see ante. p. 33.

The other matter is also one, which at this stage can only be touched upon. The coasting trade of India is considerable enough to maintain a considerable fleet of mercantile marine in a highly flourishing condition. But India has practically no mercantile marine of her own. India is, unlike Switzerland or Afghanistan, a maritime country; but her flag, which once used to be familiar in every sea and every harbour of the civilised world, is now quite unknown on the high seas. That is a consequence of India's present political condition which it would be useless to deplore. But the absence of Indian shipping even in the coasting trade of India,—which, in every civilised country of the world, including Britain, is invariably reserved for one's own national shipping,—is impossible to overlook or to excuse.

XXXVIII. THE INLAND TRADE OF INDIA.

The Importance of that Trade.

We may next consider the inland or inter-provincial trade of India. India, with the United States and China, is amongst those few countries of the world, which by their extent and configuration, by their geographical situation and political organisation, are so circumstanced as to be able to produce practically every requirement for the necessities, comforts and ornaments of human life. She is best fitted therefore to maintain, if necessary, the ideal of self-sufficiency* a source of great strength in the event of trade rivalries of a most acute and active kind. "India" said Sir John Strachey, "by the extent and favourable conditions of its territory is capable of producing almost every article required for the use of man."† To him the only inference from this observation was:

> "Here then is a country, which, both from its poverty, the primitive and the monotonous character of its industrial life, and the peculiar character of its political conditions, seems to require from its Government, before all things, the most economical treatment of its resources, and, therefore, the greatest possible freedom in its foreign exchanges."

But Sir John was speaking in, and therefore, referring to the conditions of 1879. India has modified the monotony of her industrial life complained of by Sir John since; and that the modification has not gone as far as it well might have is no fault of India. But even for those who do not accept Sir John's conclusion about the utmost possible freedom in our international exchanges as the most economical method of treating our resources, it is open to believe that the diversity of Indian zones and regions engenders a variety of resources, and facilitates a volume of production, which cannot but be best utilised by the utmost possible freedom of exchanges within the country and between the provinces. The earliest beginning, it has been said, for the freedom of trade was made by the formation of a Zollverein;[*] and India, like the United States of America, offers a readily constituted zollverein, whose fullest advantage remains yet to be taken. The provinces of India are, indeed recent creations of merely administrative necessity. They represent or embody no intelligible principle of association and co-operation between their inhabitants or territories. Their very medley of races and religions intensifies the fundamental unity of the continent of India, the obvious advantage of its being treated as an unbroken unit for purposes of internal trade.

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* We do not advocate a reversion to the ancient ideal of self sufficiency, even where practicable. For such a retrogression would not be in the interests of human progress. On the other hand, we need not blind ourselves to the iniquities of the modern methods of stimulating a new demand; nor can one regard all new wants as free from injury. The trade of the Europeans with the natives of Africa is too glaring an example of the undesirable tendency of the modern trade organisation to be overlooked. Between the ancient ideal of self-sufficiency or minimum trade and the modern madness about comparative costs and artificially stimulated and forcibly maintained trade, we place the principle of the trade organisation of the future—inter-regional exchange of surplus or specialities.

† Financial Statement 1879-80.

The trade within a country so large as India is bound to be much more important than her trade with other countries or peoples. Its exact computation is almost impossible. Even in the United States, it is not quite easy to give an exact value for this internal trade.[†] Prof. Fisher gives the total volume of the domestic trade of the United States at 387 *billion* dollars for 1909 as against the total foreign trade of that year at 3400 million dollars.[‡] But even assuming Prof. Fisher's computation gives an excessive figure; and that such methods of computation as are supplied by clearing House Returns, or Banks deposits, or Railway Traffic returns are not fully reliable, they all agree on one point. The Inland Trade is invariably more considerable than the foreign trade. The total foreign trade of England, imports, exports and re-exports included, was about £ 1700 million in 1922. The Bank clearings for that year were £37,000 million or over 20 times the amount of the total foreign trade. In the case of India the maximum figure for the total foreign trade hitherto attained was Rs. 600 crores; the inland trade was computed at between 1500 and 1600 crores,—the figures for 1919–20 being 1597 crores while those for 1920–21 were 1497 crores. Even under the Indian method of calculation the figure cannot be less than three times as much as the foreign trade figure. It is indeed very low as compared with the similar ratio in Britain or the United states; and this relative coupled with its absolute magnitude suggests possibilities of development which cannot be neglected without grave prejudice to the permanent interests of the country.

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[*] cp. Bastable *Public Finance* p. 394 "The earliest step towards federation between independent States has been the abolition of the customs houses at their frontiers."

[†] Says Dr. Anderson in his work on *The Value of Money* "Figures have been offered which would show that the foreign trade of the United States is only a fraction of 1 % of the domestic trade. This conclusion is reached by taking the figures for banking transactions ……………as representative of the domestic trade, and comparing them with the annual figures of exports and imports. This procedure is fallacious for several reasons ………… the bulk even of these deposits which do represent real trading grow chiefly out of speculation. Even in ordinary trade, goods are counted several times before reaching the final consumer. It is clear therefore that even an accurate figure for total trading would have little relevance when we are seeking a figure to compare with exports and imports." (p. 267-8) The learned Doctor himself considers domestic trade to be equal to the net income of the U. S. A. *less* Imports at retail prices. On this basis he finds the foreign trade of U. S. A. to be about 17 % of the domestic trade.

[‡] cp. Fisher's *Purchasing Power of Money* ch. 12 and appendix thereto. After criticising and discounting Fisher's estimate based upon a consideration of Bank deposits on a given day, (pp. 227 et seq. in his *Value* of *Money*) Dr. Anderson gives his own alternative method of calculating the volume of domestic trade for the United States as follows: 'I shall use it only as a check on King's figure for *the total income of the United States in* 1910 which I shall use as a base figure instead of my own. King's figure for the total income of the United states in 1910 is $ 30,500,000,000. I take this figure as including all that the American people spend for consumption, with retailers, physicians, hotels, theatres &c. and also their net savings for the year. Part of this they spend for foreign products. The rest they spend at home. This residue spent at home gives us a figure which we may properly compare with the amount the foreigner spends in America as indicating the ratio of the foreign to domestic trade for the purpose in hand. We subtract, in other words, from the figure for total income the figure for *imports*. Then we compare the resident with the figure for *exports*, and get our ratio of foreign to domestic trade. The export and import figures must first, however, be reduced to a *retail* basis. This method, applied to the figures for 1910, gives us a ratio of about 10 : 1 for domestic to foreign trade—the lowest percentage for foreign trade which we shall find for any year in the period investigated 1890-1916." (op. cit. p. 269-70)

The Indian method of computing the inland trade is most dissatisfactory. The object held in view by the official compilers of these statistics is thus compendiously stated in the latest available official return for the inland trade of India.

> "The inland trade statistics are always of interest since they give some idea as to the extent of the movement of the staple articles of both the import and the export trade between the different parts of the country. *As such, this volume is a supplement to the foreign sea-borne trade of British India.* It shows where the commodities after importation into the ports go for consumption, and whence the ports obtain supplies for exports abroad." *

This is a fundamentally wrong attitude. The home trade of a country like India is not merely a pendant to its foreign trade; and the object of compiling statistics for it is not simply to show where final consumption of imported goods takes place, and where the ultimate sources of supplies for the foreign markets are situated. Such an attitude takes no account of the existing regional differences within the country, and consequently disregards entirely the possibilities of trade and industrial development inter regions. It makes no allowance for the relationship between the character and volume of production and the nature of the foreign and domestic trade. It allows absolutely nothing for the influence of the volume of trade upon the volume of currency, with subsidiary allowance in the former factor for the vitiation of figures by speculation, and in the latter for the velocity of circulation and creation of circulating or non-circulating substitutes for the legally established media of exchange. The following description of the method of computing the inland trade of India is abridged from the official publication already quoted.

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* "Inland Trade of India 1920-21" no. 1652 of the Govt. of India p. iii.

For the purpose of registration of the rail and river-borne trade the country is divided into 18 principal blocks, namely, nine blocks representing the British Provinces—Assam, Bengal, Bihar and Orissa, the United Provinces of Agra and Oudh, the Punjab (including the North-West Frontier Province and the Delhi Province), Sind and British Baluchistan, the Central Provinces and Berar, Bombay, and Madras; four representing the principal port towns—Calcutta, Bombay, the Madras seaports,[*] and Karachi; and five representing Indian States—Rajputana,[†] Central India,[†] the Nizam's territory, Mysore, and Kashmir. The trade shown in the accounts under the head "Bengal" is the trade of the province of Bengal excluding Calcutta, the trade of which is shown separately; similarly the trade credited to Bombay, to Sind and British Baluchistan, or to Madras, is the trade of such province excluding Bombay port, Karachi, or the Madras seaports, for which separate figures are given. The trade registered is the trade that comes into or goes out of each block by rail, exclusive of traffic that is merely booked through. The rail-borne trade is not registered in Burma[‡]. The trade of Indian States which lie within the external boundaries of a British province is included in the trade of the province.

The registration of the rail-borne trade is done by the railway audit offices which register the goods carried for delivery to consignees on their own lines, and in some cases, passing over their lines for delivery on connected lines. Goods carried from one station to another within the same internal block are not registered. The required information is collected from railway invoices, which show, among other particulars, the description of goods, the stations from which they are sent and at which they are received, and the gross actual weights.

A certain percentage, which varies according to the class of goods, is taken to represent the weight of packing materials, and this is deducted from the gross actual weights recorded in railway invoices. The remainder is taken as the net weight of the goods. This net weight is registered and is shown in these tables.

The railway audit offices register the trade (1) between the internal blocks of a province, and (2) between the internal blocks of a province and the internal blocks of other provinces. They supply quarterly returns to local authorities. Quarterly statements are prepared for each province for submission to this Department. The statements show:—

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[*] Madras seaports are—Madras, Negapatam, Tuticorin, Calicut, Coconada, Vizagapatam, Cuddalore, Cochin, Tellichery, Cannanore, Masulipatam, Mangalore, Quilon, Porto Novo, Badagara, Dhanuskodi, and the French Ports, namely, Pondicherry with its suburb Villianur, and Karikal.

[†] Constituted a separate block from 1st April, 1918.

[‡] The registration of the Inland Trade in Burma was abandoned in 1897. It was pointed out by the Government of Burma that "no request has ever been made by any mercantile body in Burma for the introduction of a system of registration of rail and river-borne trade. With regard to the movement of grain the Lieutenant-Governor is disposed to think that having regard to local conditions, statistics regarding such movement would be of little value, and that the existence of agricultural distress is already in all cases brought to notice by surer and *more speedy* methods than such statistics would afford."

i. The trade of the province as a whole with other provinces.

ii. The trade of each internal block in the province with other provinces.

iii. The trade of the internal blocks of the province with one another.

The consolidated accounts of the inland trade of India are compiled from Statement I of the quarterly returns received from the several provinces and from the quarterly returns supplied by the railways concerned of the trade of the Indian States blocks with one another. The trade between each of the five Indian States blocks on the one hand and British provinces on the other is ascertained thus—the imports into British provinces from Indian States represent the exports from the Indian States, and the exports from the provinces represent imports into the Indian States.

The river-borne trade is registered between Bengal (including Calcutta) and Assam, Calcutta and Bihar and Orissa, Assam and Bihar and Orissa, Calcutta and the United Provinces of Agra and Oudh, and the Punjab and Sind and British Baluchistan. The results are combined with the rail-borne trade statistics. The river-borne trade represents the trade carried by country boats, as well as by inland steamers. The boat traffic is registered at certain selected river stations by clerks who collect the necessary information from the boatmen and forward the returns to provincial offices. The trade carried by steamers is registered by the steamer agents, and in some cases clerks from provincial offices extract the required information from the invoice recorded in the steamer companies' offices. The trade carried partly by rail and partly by river, when booked through and carried by steamers running in connection with railways, is recorded generally by the railway audit offices concerned. This trade is treated as rail-borne trade.

As the railway and steamer invoices do not show value, the returns prepared by the audit offices contain only figures of quantity recorded in standard maund of $82\frac{2}{7}$ lbs. The annual provincial reports contain figures of value assigned by provincial offices, *but for certain classes of articles the values recorded in those reports represent only a very vague approximation to the truth, and no exact* debtor and creditor account exhibiting the true balance of trade can be extracted therefrom. The values in the provincial reports, therefore, are not taken into account in the accounts for India which contain only figures of quantity in cwts converted from net weights in maunds. As, however, the values provide the only possible common measure by which the relative importance of each article can be ascertained, they are retained in the provincial reports.

The explanation contains its own condemnation. The value figures are altogether guess-work; while the internal trade of a province or block is neglected. A closer approximation to facts might be had from an account of the gross traffic carried by railways. While the Inland Trade Review of the Government of India for 1920–21 gives the total volume of that as 68 million tons,* including rail as well as river-borne trade; the railway administration report for the same year gives the goods traffic carried on railways alone as 87·5 million tons in the same year. † The two subjoined tables give an idea of the quantitative movement of goods from the hinterland to the ports, and from the ports inwards on to the hinterland. ‡

The total quantity of merchandise imported into the ports by rail and river during the year 1920–21 was 15,380,000 tons, of which 12,186,000 tons, or 79 per cent, were made up of the ten articles shown in the table below:—

Articles.	1913–14 (per-war year)	1914–15	1915–16	1916–17	1917–18	1918–19	1919–20	1920–21
	000 tons	000 tons	000 tons	000 tons	000 tons	000 tons	000 tons	000 tons
Cotton, raw	714	558	656	480	468	445	594	547
Grain and pulse...	3,237	2,240	2,773	3,031	4,605	3,211	1,631	2,055
Oilseeds ...	1,956	1,062	1,182	1,148	719	876	1,055	849
Coal & coke	5,810	5,665	5,065	6,368	6,334	5,521	5,631	6,493
Jute, raw ...	1,063	824	1,053	923	795	852	893	916
Gunny bags and cloth	210	275	354	455	426	446	400	368
Hides and skins ...	91	76	93	120	97	124	111	37
Tea ...	98	119	138	124	157	134	136	98
Ores ...	689	399	496	628	439	398	364	810
Wool, raw...	20	19	30	27	36	25	22	13
Total imports into ports (including other articles).	16,387	14,007	14,833	16,555	17,417	15,476	14,035	15,380

The total despatches from the ports to the interior were 5,024,000 tons in 1920–21, as against 5,442,000 tons in 1919–20 and 6,066,000 tons in the pre-war year. The following table shows the trade in eight principal articles exported from the ports by rail and river (representing nearly 52 per cent of the total) :—

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* "The total imports and exports of merchandise for the year ending 31st March, 1921 amounted to 68 million tons, or an increase of 4 million tons over the preceding year and were slightly above the pre-war year level" op. cit. Introductory note.

† cp. *Railways in India*, Administration Report for the year 1920–21 Vol. I ch. vi p. 36.

‡ It is not quite clear if the exports from the ports are only outgoings landwards to the main continent; or whether they also include exports seawards to foreign countries. Presumably only the former are included. The same reflection and solution apply to the case of Imports into ports.

Articles.	1913-14 (pre-war year).	1914-15	1915-16	1916-17	1917-18	1918-19	1919-20	1920-21
	000 tons	000 tons	000 tons	000 tons	000 tons	000 tons	000 tons	000 tons
Cotton piece goods ...	241	219	232	210	186	150	169	148
Foreign...	*208*	*180*	*188*	*166*	*146*	*97*	*83*	*51*
Indian ..	*33*	*39*	*44*	*44*	*40*	*53*	*86*	*97*
Cotton twist and yarn	53	59	59	58	67	63	43	55
Sugar, refined and unrefined.	627	406	465	377	382	412	315	230
Iron & steel, wrought.	648	513	331	251	187	169	269	465
Kerosene oil.	246	264	255	260	265	213	293	265
Salt ...	597	578	528	506	467	444	514	509
Rice, not in the husk.	368	579	651	464	334	785	1,114	742
Railway plant and rolling stock ...	437	429	196	120	92	85	170	200
Total exports from the ports (including other articles) ...	6,066	5,669	5,107	4,461	4,189	4,747	5,442	5,024

The value figure as regards the total trade within the country is, as already shown, utterly unreliable; but we append below the figures for certain staples of commerce for what they are worth.

The total imports and exports during the year were valued at Rs. 14,97 crores as against Rs. 15,97 crores in 1919-20, the decrease being due to lower prices of articles than in the preceding year.

Volume and value of the Inland trade in Certain Staples of Agricultural Produce for 1920-21 as compared with those for the pre-war year, 1913-14

Articles.	Quantity in 1920-21	Value in 1920-21	Trade of 1920-21 calculated at prices of 1913-14	Value in 1913-14	INCREASE (+) OR DECREASE (–) AS COMPARED WITH 1913-14	
					Quantity	Value
	Rs.(1,000)	Rs.(1,000)	Rs.(1,000)	Rs.(1,000)	Rs.(1,000)	Rs.(1,000)
Cotton, raw ...	1,291,091	1,24,46,23	88,53,37	1,06,22,01	–17,68,64	+35,92,86
Rice, not in the husk ...	2,928,613	66,42,14	44,32,62	39,12,26	+5,20,36	+22,09,52
Wheat ...	2,565,747	40,51,00	28,77,63	38,14,93	–9,37,30	+11,73,37
Jute, raw ...	2,144,524	42,89,91	45,59,38	60,28,68	–14,69,30	–2,69,47
Linseed ...	432,389	9,25,68	7,58,00	16,24,72	–8,66,72	+1,67,68
Tea, Indian ...	256,022	20,91,76	30,93,06	29,20,10	+1,72,96	–10,01,30

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[*] All these tables and the rubrics introducing them are taken from the official review of the *Inland Trade of India* for 1920-21, already mentioned. Very slight changes have been made in the omission of a redundant column.

To what extent this view of the inland trade—which makes it barely three times the foreign trade of the country,—is erroneous may be shown from the following figures from Mr. Findlay Shirras's review of the Trade of India in 1920-21. Of the 10 principal articles of export, the amount exported was the subjoined proportion of the total production.

Articles.	1913-14	1918-19	1920-21	Articles.	1913-14	1918-19	1920-21
Rice ...	8	9	4	Linseed ...	107	125	45
Wheat ...	14	6	3	Rape and Mustard.	23	41	16
Sugar ...	.4	.5	1	Sesamum.	28	.9	3
Cotton (Raw)	59	26	58	Ground nut	37	3	13
Jute (Raw)	48	32	44	Indigo ...	41	67	25

These show an internal trade—assuming that all that which is not exported is subject matter of exchange within the country *–to be from a hundred times to twice as large as the export trade. The larger percentages of exports relate to articles of superior value; and, therefore, the aggregate value figures may not, it is quite conceivable, give an accurate idea of the corresponding movements of quantities within the country: The following table is, therefore, compiled showing aggregate production of the principal articles, and their value, computed by a rough averaging, available in toto for internal trade movement. The quantitative total of agricultural produce alone comes to 66.99 million tons. If the whole of this was carried by the railways and represented in the import and export figures of inland trade *twice* over, the volume of inland trade would aggregate about 124 million tons–or double the total produce. And this does not include the quantitative record of mineral production.

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* This is not quite correct, as it does not allow for direct consumption by the producer himself. The allowance however need be very little in the case of the commercial products—i. e.—the products here treated of, as they are produced with a view to exchange, not for consumption. Besides, if no allowance is made for consumption by the producer direct,—no allowance is also made for the imports of similar articles.

Articles.	Average 1910-11 to 1914-15		Average 1915-16 to 1919-20		1921-22	
	Quantity Tons	Value Rupees	Quantity Tons	Value Rupees	Quantity Tons	Value Rupees
Rice	28,389,000	3,86,09,04,000	32,031,100	739,91,84,100	33,038,000	650,84,86,000
Wheat	9,663,000	99,52,59,000	9,288,000	168,11,28000	9,817,000	189,94,13000
Sugar-cane	2,411,000	32,78,96,000	2,867,000	104,93,22000	2,590,000	88,97,30000
Linseed	508,000	8,12,80,000	434,000	13,28,94000	434,000	11,50,10000
Rape and Mustard	1,226,000	19,37,08,000	1,072,000	29,15,84,000	1,146,000	27,31,48000
Sesamum	471,000	12,81,12,000	421,000	16,62,95000	515,000	16,11,95000
Groundnut	695,000	12,16,25,000	952,000	35,89,04000	920,000	25,30,00000
Indigo	1,950	76,05,000	3,700	3,00,00,000	3045	2,55,12000
Tea	129,491	14,50,30,000	167,082	18,71,32,000	122,429	15,42,73000
Coffee	......		9,520	1,19,95,200	9,217	1,39,08000
Rubber	......		6,078	1,82,34000	4,043	1,05,11,800
Cotton	780,357	60,32,27,000	787,857	102,42,14000	797,143	79,71,43000
Jute...	1,619,464	64,77,78,000	1,427,143	59,52,21000	711,607	54,90,62000
	45,894,262	711,24,54,000	48,766,480	1293,61,07,000	50,187,484	11,35,03,91,000

This table has been compiled from a variety of sources and the correlation of the quantity and value figures need to be carefully scrutinised. The figures relating to the yield of the various crops are taken from the *Estimates of Area and Yield of Principal crops in India in 1921-22.*[*] The figures are those of quinquennial averages[†] in the first two cases, and for the fiscal year in the last case. Together they may be held to give a fair general view of the agricultural production in India. The value figures are much less satisfactory. They are taken from the *Prices and Wages in India*[‡] by averaging the price quotations in all the centres given in Table no., 1 for 1913, 1920 and 1921. The first is used to calculate the values of production in 1910-11 to 1914-15; the second for those of 1915-16 to 1919-20 though in this case the result is bound to be somewhat exaggerated. The third has been applied to the production of 1921-22. In cases where the table in question does not give the price-quotations, the average declared value per unit of export has been utilised to supply the missing link from the *Annual Review of the Trade of India for* 1920-21 and the annual *Statement of the sea-borne Trade of India for 1921-22.*[§] The total agricultural produce—gross valuation at wholesale rates–is thus about 711 crores in 1913-14 and between 135 to 1300 crores in 1920 and 1922 respectively. The remaining food crops and other farm produce may be thus estimated in quantity and value from the authorities already quoted :—

Article.	1913-14 Quantity Tons	Value. Rs.	1920-21 Quantity Tons	Value Rs.
Barley	2,685,000	20,13,75000	3,128,000	37,53,60,000
Jowar	4,044,000	28,30,80,000	4,956,000	64,42,80,000
Bajra	1,815,000	13,61,25,000	1,986,000	33,76,20,000
Maize	2,084,000	15,63,00,000	2,406,000	28,87,20,000
Gram	1,938,000	17,44,20,000	4,335,000	69,36,00,000
Total	12,566,000	95,13,00,000	16,811,000	233,95,80,000

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[*] No. 137 of the Government of India Commercial Intelligence Dept. 1923. Table no. 1 p. 8.

[†] In the case of Coffee and Rubber the figures in the 2nd quinquennium only relate to the fiscal year 1919-20.

[‡] no. 1719 of 1923 from the Department of Statistics of the Government of India.

[§] This is the case with regard to Tea, Coffee, Rubber and Indigo., as well as Groundnuts. The uniformity of method is inevitably broken, but the results do not suffer materially. Tea is taken at between 8 and 9 annas per lb. though the exports for 1921-22 are actually in excess of home production of India being valued at over 18 crores. The price fluctuations being much greater in the case of cotton, we have taken a mean figure for 1921-22. The result may be taken to be accurate within 10 crores-or a margin of error of about 1% on the total.

The total agricultural produce is thus valued at 806 crores in 1913-14, and 1368 crores in 1921-22. Add to this 100 crores of gross produce in industry and mining [*] in 1921-22; and we get a total gross income or production of the people of India in 1913-14 at 850 crores in round figures, and 1470 crores, also in round figures, for 1921-22. If we may regard prices in 1921-22 to be 50 per cent above 1913-14 level, **the real value of the production in India cannot be taken at more than 1000 crores per annum at the present time.** Even at the inflated figure, we get an income per head of Rs. 46 per annum in the whole of the Indian Empire. We are, indeed, fully aware of the rudimentary character of this estimate, which is the roughest we could make. But it would not be very far from the most accurate figure, calculated under the most rigid method of computing national wealth. It is out of this figure that the 250 [†] crores of Government

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[*] The gross production in industry and mining is thus given in the *Statistics of British India*, vol. I p. 2:—

	1919-20 (in crores) Rs.
Cotton goods.	57.81
Coal	10.12
Iron	1.58
Magnesite	1.54
Paper	2.09
Woollen goods	1.65
Salt	1.82
Gold	2.25
Petroleum	1.83
Miscellaneous	63

The total mineral production in India in 1921 is given in the Indian Year Book for 1923 (p. 367) at £ 21,883,536, of which coal, petroleum, gold and manganese ore account for £ 17,865,096=85 per cent. This is equivalent in rupees to Rs. 32,82,53,040.

This makes a total of 86.32 crores. But it does not give the values of cotton yarn and twist, nor of silk goods nor jute goods for which we may add a round figure in gross of 63.68 crores to make the total of 150 crores. This is at the values of 1919-20, which ought therefore to be reduced by 1/3 at least to get the figure for 1921-22, and by 2/3 to get those of 1913-14.) We have not included, in these figures, the income from house property or the net profits of commercial undertakings like Banks, Insurance Companies, Transport Services and the gains of small tradesmen all over the country, as these do not make real additional material production, but are rather in the nature of a tax upon production. Altogether they cannot exceed 100 crores per annum all told. On the other hand we have also omitted the debt account, as the inclusion of the internal debt at least will simply involve the error of counting the same thing twice over. The agricultural classes are, for instance, suffering from a debt load estimated at anything like 6000 crores or upwards; but in so far as the charge for the maintenance of this debt is a deduction from the agriculturists' produce, it is a corresponding gain to the other sections of the people; and so it need not be counted separately. This logic does not apply, of course, to the Indian debt held outside India—which requires now some 20 crores by way of an annual charge. A good deal of this is unproductive; but a portion of it is taken as a productive charge and as we have not specifically counted the assets against which the charge is debited, we need not include the charge either. In any case even the unproductive debt of India and its annual charge if debited would make a very fractional deduction from the wealth account as given above.

[†] There is nothing erroneous in calculating revenues and imports separately, though a part of the revenue is included in the Customs Duties. The Imports when they reach the ultimate Indian consumer will be paid for at retail rates which may be anywhere over 50 per cent. above the wholesale prices. The real Imports figure ought to be much higher. Treasure imports are included in 300 crores; but even they make no substantial difference. For if we take imports of merchandise on private account to be 260 crores, and add only 50% to get the retail price, the consumer would be paying 400 crores roughly in place of the 300 counted above.

revenues and 300 crores, of imports of foreign goods are paid for,–leaving, only 920 crores (from the 1921–22 figure) for all the human needs, on the lowest scale, of the Indian peoples.

The internal trade would thus consist of this remainder of roughly a thousand crores; and counting that amount once as imports and once as exports—as is done by the official system of computing the Inland Trade—we get a total inland trade of 2000 crores per annum. If we further add the figure of the public revenues, we might quite possibly get a figure of 2,500 crores.) The Bank deposits and clearings in India are by no means reliable enough to test that figure by using the former as a check; but in so far as we may use it, they also indicate nearly the same volume of trade inland.* But the banking habits of the people are far too primitive to allow us to regard them in any way as furnishing reliable statistics. (The real conception of our inland trade can never be obtained, if we omit to consider the frequent transfers of the same commodity from the point of its final production to that of its final consumption. There are a number of intermediaries, and they all seek to inflate, by mere repetition of an identical function, the values of goods changing hands. Even if we subscribe to the view, enunciated by Prof. I. Fisher and his followers, that all trade must be ultimately limited by the amount of produce available for exchange, the possible inflation of the valuation of that produce by the mere multiplication of the exchanges ought not to be overlooked. If the velocity of circulation of money helps to minimise the effects of its scarcity, the frequency of exchange, even though relating to one and the same article, is bound to increase its value.)

In view of the extent of our territory and the size of our population, this volume of inland trade is exceedingly small. It will be from 3 to 5 times the total of our foreign trade; or, counting only the export side of the foreign trade, it would be between 6 to 10 times that figure. Even so, it must be pronounced to be small. If Indian markets are to be developed, if only to compensate for the possible loss of other markets in consequence of an altered fiscal policy; if the regional differences between the provinces of India are to be fully utilised for purposes of internal trade, attention must be paid in ever increasing proportions to the proper organisation of the inland market. The grave preponderance of foreign trade has served to deflect attention from the real importance of our home trade. Domestic markets have therefore been wholly neglected.. It becomes, accordingly, both a necessity and an advantage to concentrate attention on the proper development of the home market.

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* The total bank clearings have risen from 371.67 crores in 1907 to 1717.61 crores in 1919.

Chapter III.

ANALYSIS OF IMPORTS INTO INDIA.

XXXIX. THE PRINCIPAL IMPORTS.

After a general review of the total Indian Trade, we may next proceed to consider its details. The following table gives an analysis of the Import Trade.

Summary of the Value of the Imports of Merchandise Consigned from the British Empire and Foreign Countries.

	1919-20	1920-21	1921-22
I.—Food, Drink, and Tobacco—	Rs.	Rs.	Rs.
A. Fish (*excluding* canned fish) ...	19,01,520	20,59,530	18,77,064
B. Fruits and Vegetables... ...	1,89,60.320	1,67,82,390	1,68,00,317
C. Grain, Pulse, and Flour ...	3,08,90,910	5,06,200	9,35,58,903
D. Liquors	2,90,76,650	4,21,17,360	3,37,20,051
E. Provisions and Oilman's stores	2,90,91,120	3,60,96,090	2,70,36,255
F. Spices	2,26,52,950	1,91,07,880	1,92,59,480
G. Sugar	22,99,26,620	18,50,29,740	27,50,28,258
H. Tea	53,74,620	40,20,810	55,39,983
I. Other Food and Drink... ...	2,32,26,820	2,44,02,760	1,69,67,853
J. Tobacco	2,01,86,560	2,95,91,230	1,65,05,763
Total, Class I ...	41,12,88,090	35,97,13,990	50,62,93,927
II.—Raw Materials and Produce and Articles Mainly Unmanufactured—			
A. Coal, Coke, and Patent fuel ...	12,85,580	30,36,810	5,85,04,742
B. Gums, Resins, and Lac ...	68,42,420	47,60,940	41,00,398
C. Hides and Skins, raw	19,96,290	10,45,860	9,81,734
D. Metallic ores and scrap *iron or steel* for re-manufacture ...	8,27,580	17,53,270	8,67,489
E. Oils	9,43,76,470	8,76,40,490	7,56,14,065
F. Seeds	1,25,99,470	51,49,630	16,73,386
G. Tallow, Stearine, and Wax ...	24,14,710	48,98,960	21,25,857
H. Textile materials	2,57,96,630	3,51,75,690	4,97,36,931
I. Wood and Timber	1,25,32,280	1,07,57,720	86,33,292
J. Miscellaneous	1,47,17,490	1,68,31,600	1,79,00,785
Total, Class II ...	17,33,88,920	17,10,53,000	22,01,38,679

	1919-20	1920-21	1921-22
III.—Articles Wholly or Mainly Manufactured—			
A. Apparel	1,96,60,600	4,32,11,730	1,28,03,926
B. Arms, Ammunition, and Military stores	37,11,070	63,95,630	70,10,666
C. Carriages and carts, *including* cycles and motor cars ...	4,53,62,160	14,08,08,140	3,51,89,924
D. Chemicals, Drugs, and Medicines	3,73,81,130	5,16,46,710	3,74,56,614
E. Cutlery, Hardware, Implements, (*except* machine tools), and Instruments	7,14,74,180	16,15,72,970	11,93,51,906
F. Dyes and Colours	3,23,47,520	5,72,41,900	4,49,09,858
G. Furniture, Cabinetware, and manufactures of wood ...	45,93,930	95,65,240	54,28,986
H. Glassware and Earthenware ...	2,74,46,930	4,27,67,180	3,00,29,705
I. Hides and Skins, tanned or dressed, and Leather ..	53,73,020	1,28,62,110	66,48,567
J. Machinery of all kinds, *including* belting for machinery ...	9,58,32,210	24,08,55,630	35,49,21,092
K. Metals, Iron and Steel, and manufactures thereof ...	16,28,73,420	31,23,21,090	21,05,99,511
L. Metals, *other than* Iron and Steel, and manufactures thereof ...	6,39,94,290	9,34,55,450	5,05,14,863
M. Paper, Pasteboard, and Stationery	3,12,71,130	9,12,48,830	3,25,48,789
N. Railway plant & Rolling-stock.	4,58,72,760	14,13,04,950	18,91,06,135
O. Yarns and Textile fabrics ...	69,08,73,470	118,32,38,060	62,43,01,772
P. Miscellaneous	11,57,58,040	16,12,29,030	13,29,76,240
Total, Class III ...	145,38,26,860	274,97,24,650	189,37,92,554
V.—Miscellaneous and Unclassified—	4,12,21,070	7,54,96,770	4,32,38,262
Total ...	207,97,23,940	335,59,88,410	266,34,63,422

XL. THE PRINCIPAL IMPORTS.

The following table gives an idea of the principal articles of Import into India.

(Value in thousands of Rupees.)

	Pre-war average.	War average.	1919-20	1920-21	1921-22
Cotton, raw	1,02,22	44,43	67,80	1,69,49	3,44,28
„ waste... ...	60	45	7	6	2
„ Manufactures.	53,67,69	52,38,12	59,07,93	1,02,12,00	59,93,81
Machinery and Mill-work: metal-working machinery (including machinery tools	1,49	88	8,46	1,54,77	1,24,49
Textile machinery ...	2,65,17	2,23,15	2,92,47	6,72,75	12,81,99
Machinery,—Miscellaneous	2,94,48	2,89,84	6,00,89	14,10,05	20,19,03
Sugar	13,17,58	14,70,48	22,99,27	18,50,30	27,50,28
Iron and Steel... ...	11,17,45	9,61,00	16,32,64	31,29,38	21,13,38
Tin	51,87	44,61	79,08	66,87	78,61
Brass etc, ...	11,65	78,58	2,30,54	4,30,65	1,83,38
Copper	3,07,06	70,71	2,10,21	2,60,74	1,25,50
Grain, pulse and flour	19,68	53,29	3,08,91	5,06	9,35,59
Oils	3,94,88	4,23,93	9,43,76	8,76,40	7,56,14
Hardware	3,17,04	2,79,45	4,36,62	9,08,38	5,91,90
Coal, Coke and patent fuel	80,89	30,41	12,86	30,37	5,85,05
Instruments Electrical	70,27	1,09,31	1,54,96	4,18,39	4,06,34
Instruments miscellaneous	65,55	56,35	66,98	1,62,72	1,08,46
Silk raw	1,17,28	1,10,01	1,77,20	1,63,20	1,32,17
„ waste	1,24	1,11	1,17	3,30	3,06
„ Manufactures ...	2,76,05	2,77,00	5,92,42	5,59,34	2,98,70
Liquors	2,02,47	2,36,64	3,37,41	4,90,02	3,76,61
Dyes	1,33,01	1,06,42	1,88,89	3,73,86	3,20,52
Motor cars and Motor cycles	1,00,64	1,11,45	3,92,84	12,34,32	2,71,73
Provisions and oil man's stores ...	2,05,10	2,14,81	2,90,91	3,60,96	2,70,36
Paper and Pasteboard	1,27,07	2,02,47	2,34,46	7,30,34	2,34,11
Glass and Glassware ...	1,61,92	1,28,02	1,90,81	3,37,62	2,22,49
Matches	88,21	1,53,31	2,04,83	1,67,01	2,03,80
Building and Engineering Materials ..	78,02	98,80	1,24,03	2,25,99	2,00,69
Spices	1,54,72	1,96,93	2,26,53	1,91,08	1,92,59
Chemicals	90,49	1,91,51	1,51,05	2,66,14	1,90,89
Fruits and Vegetables	1,07,72	1,10,30	1,89,60	1,67,82	1,68,00
Tobacco	71,07	1,32,42	2,01,87	2,95,91	1,65,06
Drugs and medicines	1,02,63	1,29,02	1,82,50	2,11,28	1,58,37
Rubber, raw and manufactured	23,16	97,25	1,66,60	2,52,06	1,54,38

	Pre-war average.	War average.	1919-20	1920-21	1921-22
Salt	79,16	1,81,65	2,09,52	2,28,13	1,51,68
Wool—raw	16.21	18,28	7,48	6,50	9,12
„ Manufactures ...	3,08.37	1,81,71	1,59,85	5,58,09	1,22,86
Painters and Painters' Materials	71,00	98,99	1,30,71	1,95,22	1,23,96
Bobbins		37,35	38,80	61,87	1,19.88
Wood and Timber ...	79,39	1,02,29	1,57,94	1,48,69	1,15,08
Apparel	1,46,67	1,43,44	1,58,83	3,26,28	1,12,62
Belting for machinery.	39,53	60,37	54,08	1,46,10	1,00,88

Taking these articles one by one would lead us into too great a digression without a corresponding benefit to the reader. We shall therefore confine our study to the ten principal articles of Import, which together account for the largest proportion of the trade of India in imports.

Figures are in thousands of rupees.

Cotton goods	Rs. 60,38,11	Railway Plant	Rs. 18,91,06
Machinery	„ 34,25,51	Grain, Pulse &c.	„ 9,35,59
Sugar	„ 27,50,28	Oil	„ 7,56,14
Iron and Steel } ...	„ 21,13,38	Hardware ...	„ 5,91,90
Other metals } ...	„ 5,06,43	Coal Coke &c....	„ 5,85,05
Silk	„ 4,33,93	Instruments ...	„ 5,14,80

These make a total of 206·42 crores out of the total imports valued at 266·34 crores in 1921–22 or 77·5 p. c. of the trade of India. We shall take each of these separately, examine the direction of these imports, and the possibility of supplying these articles by domestic production in India.

XLI. COTTON IMPORTS.

We have already noticed the importance of cotton fabrics in the trade of ancient and medieval India. There would thus appear to be nothing surprising in finding that cotton still holds the pride of place in the foreign trade of India—except that the character of that trade is wholly altered. Instead of exporting cotton manufactures made in India, we are now *importing* by far the largest proportion for our own use. That, however, until less than two hundred years ago, India was practically a monopolist of cotton goods as well as of cotton raw may be evidenced from the following observations of a great official authority:—*

> "It would not be far from correct to describe cotton as the central feature of the world's modern commerce. Certainly no more remarkable example of a sudden development exists in the history of economic products than is the case with cotton. The enormous importance of the textile to-day, in the agricultural, commercial, industrial and social life

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* Sir G. Watts's *The Commercial Products of India* p. 470.

> of the world renders it difficult to believe that but little more than two hundred years ago cotton was practically unknown to the civilised nations of the West. But it is perhaps still more singular that a fibre, which, for many centuries apparently, had been a staple article of clothing for India and the East generally, should scarcely find a place in the early classical literature of these countries."

It is difficult to understand why Sir George, the authority quoted, should consider that there is no mention of cotton in the earliest literature of this country; for in the very next passage, he himself quotes with approval the opinion of Mr. T. W. Thomas, that:

> "The earliest mention appears to be in the *Asvalayana Srauta Sutra* (say 800 B. C.) where the material is contrasted with silk and hemp, as that of which was made the sacred thread of the Brahmans."*

We have already shown that weaving was a craft quite well known in the *Rigvedic age;*† and it is impossible to conclude that the Indian classical or ancient literature knows nothing of the plant and its name. Even according to Dr. Watt's own showing, however, the production of raw cotton was confined, almost like a monopoly, to India. Neither Egypt nor America were, until about two hundred years ago, anywhere near India in the production of the raw material for the principal textile industry of all the ages. ‡

The most attractive feature, however, of the trade in cotton during all the centuries before the nineteenth was not so much the traffic in raw material, but that in the manufactured goods. And, if the produce of the raw material was a practical monopoly of India, the manufacture of finished goods was still more completely so. A French writer Renaudot translating the journal of an Arab traveller of the ninth century says, that when Sulaiman, the traveller, visited Calicut, he found:

> "Garments are made in so extraordinary a manner that nowhere else are the like to be seen. They are for the most part round and woven to that degree of fineness that they may be drawn through a ring of middling size."§

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* *Op. cit. loc. cit.*

† See *Ante* Introduction p. 1

‡ See Sir G. Watts op. cit. quoting Yates, *Textile Antiquaries* pp. 334-59 to show "Cotton was *not* grown in Egypt proper during ancient times." According to that authority cotton was first cultivated in Egypt about the 13th or 14th century A. D., since an Arab traveller of 1200 A. D., speaking of the products of Egypt, makes no mention of cotton. cp. Watts. op. cit p. 572. Re. American cotton, the same authority remarks:—" The Spaniards on their arrival in the new world found cotton being cultivated and manufactured from the West Indies to Peru and from Mexico to Brazil." But this is not the now famous variety of cotton known as the long-staple Sea Island quality.

§ Op. cit. p. 572. China. which had perfected its silk manufacture long before this date, had no cotton manufacture till the 13th century. A. D.

If this was the case a thousand years ago, we may imagine to what perfection it must have reached in the centuries that followed, when the active and munificent patronage of a most luxurious court in the world heaped favours upon the practitioners of this craft. Sir G. Watts, indeed, has pronounced the opinion that while hand-loom weaving at its best could turn out cloth of 450 counts at most, modern power looms could produce material of as much as 600 counts, and that consequently the hand-loom weaver's real safety lies in the goods he manufactures being of a fancy or special nature, meeting local markets known to him, rather than in regular commercial articles intended for large markets." [*] For modern machinery knows no limit to the fineness of the goods it can produce, except, of course, the size of the market it caters for, and the steadiness and regularity of the demand it can count upon. Whatever its inherent excellence, [†] whatever the sentimental or social arguments in favour of an active encouragement of reviving the industry may be, [‡] the facts

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[*] Op. cit. p. 616.

[†] Sir Geo. Watts has concluded that the best specimens of Hand-loom products collected at the Delhi Darbar of 1903 were about as good as the earliest available sample. If the conjecture is true that the active hostility of the British fiscal legislation, impelling in some cases ultra enthusiastic servants of the E. I. Company to cut off, according to rumour, the thumbs of the best craftsmen in their district, had resulted in a final extinction of this art; and that, even before this, the disappearance of the active patronage of the Court of the great Moghuls and their principal satraps had contributed to a gradual decay of the industry, there is not much logic in concluding that the specimens of Indian workmanship available in 1884 or 1903 were really comparable to the products of the industry at the zenith of its prosperity. Sir Geo. is right in emphasising the point that we have no earlier specimens to compare. Of the still surviving industry he says:—

"The point of interest in these Dacca muslins, however, lies in the fact that the hand-spinners of Dacca *are* producing to-day yarns of a fineness that no machinery in the world could spin from the interior staple which they use. Dr. Taylor wrote in 1840 that the Dacca spinners failed to use the fine American cottons, and gave as their reason the fact that the English yarn swells on bleaching, while that of Dacca shrinks and becomes finer and stronger. It would then appear that the European spinner, with all his beautiful machinery, may still have something to learn from the hand spinner". Op. cit p. 617.

[‡] Mr. Gandhi, the most advanced nationalist leader of modern India, made the revival of handloom weaving a cardinal feature of his political agitation in 1920-22. It is beside the point of the general argument of the present work to consider and pronounce upon the efficacy of the *Churkha* as a weapon in winning self-Government for India. Confining our attention to strictly economic arguments—or rather socio-economic considerations, we can find only two chief arguments that could at all be used to support active efforts for the revival of hand-loom working. That industry afforded an excellent bye-employment in ancient and medieval times; and, by parity of reasoning, it is urged, that it may still be made a suitable side-employment to insure the agriculturist against the horrors of periodical failure of their principal source of livelihood. We cannot, however, consider that in the supreme form of craftsmanship the industry had attained, it could really be the occupation of leisure moments. All the best artisans were really whole-time workers and city-dwellers. For lower kinds of produce, it might have been a bye-employment in the past; but we doubt if in the cheaper lines, the handicraft can economically hold its own against machine production. It could only hold its own in those superior lines, where the market is too specialised and too fastidiously select, to make it worth the while of the large-scale machine producer to compete. In the special form of Mr. Gandhi's movement this economic weakness was almost wholly ignored, thereby creating an antagonism not merely between the handicrafts and foreign imports, but also between the former and the machine products of India. Those who placed an implicit faith in the movement were often heard to advance non-economic grounds,

The explanation then of the decay of the Indian cotton industry is to be found in the triple coincidence of the revolution in the mechanical appliances for spinning and weaving, that were introduced in England towards the close of the eighteenth century; the adoption, in consonance with her general traditional policy in that regard, of legislative and fiscal measures by Britain to destroy all possible competition with her newly established industry[*]—a policy which was facilitated by the gradual but effectual political subjection of India by the East India Company, and the consequent exploitation of that country's resources for the benefit of British trade; and the revolution in the means of transport, which permitted large trade being carried on in these bulky goods over considerable distances, by practically eliminating the item of the cost and risk of transport. Any of these factors—at least the first or the third,—was by itself enough to give a mortal blow to the old-fashioned Indian industry, lacking

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(Continued from p. 128.)

like the emancipation of the worker from the tyranny of the factory, and particularly the safe-guarding of the honour of our women by saving them from factory slavery. To this aspect of the argument there can scarcely be any opposition beyond pointing out that, the remedies for the undoubted social evils of modern industrialism do not lie exclusively in an utter annihilation of modern industrialism.

The second and seemingly economic argument is more subtle. The hand-loom, or at least the independent domestic worker, could be enabled to compete with the factory production if (1) he could be supplied with power by the cheapening and popularisation of electricity, and (2) by the formation of co-operative unions of workers obtaining all the advantages of large scale operations without the slavery and drudgery and disease of the factory life. It must be observed that the protagonists of hand-loom industry to-day do not put forward their plea in this form. For what it is, we may concede that it is certain to be indistinguishable from the factory organisation, except in the all-important consideration of the distribution of the product. If only co-operative enterprise could progress so far as this plea implies, nothing better could or need be hoped for. The state of our knowledge in electrical engineering is by no means so great as to permit us the hope of an early realisation of this revolution. Besides, to accomplish it, the necessary machinery would have to be thoroughly revolutionised, and we may have to wait indefinitely before we can see such a change. It all thus depends upon the progress of the co-operative principle and its suitability to social organisation. It would be immaterial in a society based on the co-operative principle if the motive power of industry was steam or electricity. Personally, I am inclined to the view that the co-operative principle in production is unsuitable in comparison to the collectivist principle, and that the reorganisation of society would have to be based on the latter. But in either case, the horror of the present unequal distribution would be avoided, and the industrial slavery of to-day abolished. If the Charkha can accomplish that—of which I have serious doubts—it ought of course to be universally welcomed. I, therefore, endorse the conclusion that "the hope of the hand-loom industry lies in the production of goods of a kind which cannot profitably be made by the power-loom, such as those compounded in an intricate fashion or made in a very complicated pattern" (Watts op. cit. p. 616.)

We might add here that in a little handbook called '*Khaddar Work in India*', published by the All-India Congress Khaddar Department in 1922, such statistics as there are given,—and these are extremely unreliable and unsatisfactory, as much owing to misprints as on account of want of co-ordination and proper tabulation of the scanty material collected,—we are told that there are nearly 36 lakhs of charkhas in all the Indian provinces. But their output is not accurately available, and the cost is almost in every province *greater* than the mill made cloth, Indian or foreign. The yarn spun varies from 6 counts to 60 in the Telgu country, which compares favourably with the superior kind of yarn spun by the mills in India. On the whole, this handbook gives no ground to modify the judgment elaborated above.

[*] See Introduction, Section C, and also the *Economic History of India* Vol I by R. C. Dutt.

as it was in the new mechanical appliances and a suitable transport agency. While steam was yet unapplied to the marine transport, Indian goods were yet, it is true, holding their own, though not without difficulties, in the European markets supplied by machine made goods from England. If Napoleon's navy had remained after Trafalgar at least strong enough to patrol the Mediterranean Sea and the Arabian ocean, the continental system of the Emperor might have had a chance of success. The political therefore, combined with the economic factor in the last century to strangulate the centuries old cotton trade of India. The cotton industry of Britain, which at the commencement of the 18th century only consumed about 1,000,000 lbs. worth of raw material, required in 1850, 664 million lbs of raw cotton, and exported £ 28 million worth of cotton piece-goods.* The close of the nineteenth century found India the largest single buyer of British made cotton goods. The following table shows the shipment of cotton goods and yarn to India, China, and Japan from the United Kingdom in the last half † century :—

In thousands

	PIECEGOODS.			YARN.		
Yarn.	India	China.	Japan.	India.	China.	Japan.
	yds.	yds.	yds.	lbs.	lbs.	lbs.
1877	1,30,49,35	36,73,30	2,71,50	3,60,30	1,79,62	1,51,05
1882	1,52,21,58	40,19,58	5,29,90	4,22,08	1,52,26	1,91,44
1887	1,81,19,64	55,27,42	6,54,03	4,88,52	1,18,82	2,34,72
1892	1,85,08,72	49,74,85	7,51 86	3,95,05	85,01	2,33,84
1897	1,75,88,37	44,51,82	9,40,56	4,76,96	1,12,46	2,31,42
1902	1,99,62,07	57,47,73	10,91,16	3,02,08	63 97	23,65
1907	2,45,42,33	55,33,73	12,12,40	3,10,11	42,28	21,12
1912	2,79,52,54	52,76,36	7,47,66	4,21,95	26,40	......
1913	3,05,73,92	71,65,71	5,02,00	3,74,21	21,46	......
1914	2,60,83,36	57,79,47	2,60,98	3,74,44	16,47	......
1915	1,90,80,94	37,50,82	1,96,62	3 79,78	6,78	......
1916	1,93,51,28	37,74,25	1,72,87	2,68,80	3,13	......
1917	1,90,67,24	30,95,86	1,25,97	1,79,00	1,88	......
1918	93,53,88	21,63,70	1,09,58	82,70	67	......
1919	76,77,76	30,44.35	1,07,06	93,63	3,50	......
1920	1,37,43,77	45,26,53	2,60,49	2,28,50	26,54	......
1921	1,09,21 68	21,10,50	1,34,06	3,46,24	34,67	......
1922	1,39,79,81	30,89,48	2,10,01	3,74,85	60,42	......
Decennial average.	1,69,83,26	38,50,08	2,07,96	2,70,21	17,55	......

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* Watts op cit., p. 575

† This table has been compiled from the Annual Report of the Millowners' Association, Bombay for 1922.

This table reveals beyond dispute the steady decay of the British trade in cotton goods in the Far Eastern countries thanks chiefly to the progress of the cotton mill industry in Japan, * and, to a lesser extent, in China. The Anglo-Japanese trade in yarn is completely gone, while the Anglo-Chinese trade in the same is less than a third of the maximum figure in the nineteenth century, again due to Japanese competition. Bar war years, the Indian yarn trade has been steadily maintained; but the Anglo-Indian trade in piece-goods must be declared to be on the downward trend, thanks chiefly to the growing production in India herself. The progress of Indian production side by side with the imports is shown in the following table:—

IN INDIAN MILLS.

		Cotton consumed		Yarn produced	Cloth produced in yards
1900	Bales	14,53,352	Bales	12,84,558	32,94,23,397
1905	,,	18,79,244	,,	14,45,953	54,95,29,065
1910	,,	19,35,010	,,	15,68,410	96,38,69,482
1911	,,	19,05,866	,,	15,24,318	104,27,41,653
1912	,,	20,50,102	,,	15,62,575	113,61,51,590
1913	,,	20,96,016	,,	17,21,182	122,04,42,545
1914	,,	21,43,126	,,	17,06,942	116,42,91,588
1915	,,	21,02,632	,,	16,29,961	113,57,07,952
1916	,,	21,97,718	,,	18,06,061	144,15,14,550
1917	,,	21,98,164	,,	17,02,768	157,81,32,789
1918	,,	20,85,678	,,	16,51,439	161,41,26,458
1919	,,	20,44,230	,,	15,37,601	145,07,26,160
1920	,,	19,52,318	,,	15,89,400	163,97,79,227
1921	,,	21,20,230	,,	16,50,006	158,08,49,746
1922	,,	22,03,540	,,	17,30,782	173,15,73,296

We are thus producing on an average of the last five years 160 crores of yards in piecegoods, and importing from Britain about 180 crores of yards. In yarn our domestic production in mills averages 65 crore lbs, while our foreign imports average about 3 crores lbs or less, taking war period into account.

The modernised cotton industry is thus once again asserting itself. It has some peculiar advantages of its own. The raw material, in the first place, is available within our own frontiers, as will be shown from the subjoined:—

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* The progress of the Japanese cotton industry is evidenced from the following figures:

	1,903	1,920
Cotton consumed (in Bales)	9,75,608	21,30,790
Yarn produced (in Bales)	8,01,737	1816976
Cloth produced (in yds.)	7,67,02,213	76,20,37,360

Cp. Millowners' Association Report for 1922 and Japanese Year Book for the same p. 471

Seasons	United States of America.	India.	Indian consumption
	Bales of 500 lbs. net.	Bales of 400 lbs. net.	F.-P. Bales of 3½ cwts. each.
1897-98	10,812,224	2,473,033	
1898-99	11,008,368	3,015,269	
1899-00	9,026,276	1,090,168	16,75,192
1900-01	10,028,830	2,953,381	14,53,352
1901-02	10,401,888	2,744,591	13,51,740
1902-03	10,311,084	3,367,030	17,65,038
1903-04	9,661,932	3,160,665	17,39,340
1904-05	13,408,228	3,791,000	17,44,766
1905-06	10,919,448	3,416,000	18,79,244
1906-07	13,269,200	4,934,000	20,23,516
1907-08	11,074,888	3,122,000	19,80,170
1908-09	13,513,022	3,692,000	19,91,500
1909-10	10,134,532	4,718,000	21,09,000
1910-11	11,785,200	3,853,000	19,35,010
1911-12	15,811,182	3,288,000	19,05,866
1912-13	13,934,752	4,610,000	20,50,102
1913-14	14,231,856	5,065,000	20,96,016
1914-15	14,893,842	5,209,000	21,43,126
1915-16	12,953,450	3,738,000	21,02,632
1916-17	12,975,569	4,502,000	21,97,718
1917-18	11,911,896	4,000,000	21,98,164
1918-19	11,602,634	3,978,000	20,85,678
1919-20	12,217,552	5,845,000	20,44,230
1920-21	11,355,300	3,601,000	19,52,318
1921-22	11,449,000	4,479,000	21,20,230
1922-23	……	5,196,000	22,03,540

Our mills are yet consuming about $\frac{2}{5}$ at most of the total produce of our raw material, and manufacturing less than a third of our total clothing requirements. The Indian output, it is true, of mills is of coarser material. The following table gives a comparative view of similar classes of woven goods produced in India and imported from abroad.

In millions of yards.

	Imports.			Home Productions.		
	1919-20	1920-21	1921-22	1919-20	1920-21	1921-22
Grey …	533.3	580.2	635.6	1164.3	1129.8	1284.7
White	322.0	021.8	306.2			
Colored	208.3	489.3	138.3	475.7	450.9	446.8

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* This statement has been compiled from *the annual review of the trade of India* in 1921-1922 (No. 1752 of the Commercial Intelligence Department, India) and the *Indian Year Book*, for 1923, p. 541.

We may take it that the foreign imports plus the home production represents the strength of the Indian Market available to the Indian mill industry.* That however, in spite of adequate supply of raw material, the Indian mills are not able to command the whole of the Indian Market, may be explained by any one or more of the following causes:

(A) THE DRAIN OF THE RAW MATERIAL

Out of a total production of raw cotton averaging between 5 to 6 million bales, nearly 3 millions are exported.† It may be doubted if the present mills, with their existing equipment in the matter of spindles and looms, would be able to manufacture the whole of this raw material, even supposing measures were adopted to retain the whole of this raw material for the benefit of the Indian mills. It is true that, according to the report of the Mill Owner's Association for 1922, the production of yarn per spindle in the whole of India has fallen from 128.97 lbs in 1906 to 94.43 lbs in 1922. This alone would show that the total capacity of the Indian mills is not realised; and that were the spindles and looms worked at the fullest capacity, one third again of the present output can be turned out without the addition of a single spindle. Similarly, whereas for the 82 Mills in Bombay Island, there were 3,117,284 spindles and 65,521 looms, giving an average of 38,015 spindles and 799 looms per mill, there were for the whole of India 298 mills with 7,331,219 spindles and 134,620 looms, giving an average per mill of 24,601 spindles and 451 looms. This shows that the average mill in India has an equipment 40% poorer in the matter of spindles, and 45% in the matter of looms as compared with the average equipment of a mill in Bombay island. Hence, we may conclude (1) that if the average efficiency of the cotton mills all over India were increased to the highest level that has already been reached in the past, there is room for an expansion of a third in the present output without any increase in the capital equipment of the mills. (2) Or, in the alternative, if the capital equipment of the existing mills all over India is raised to the level of the average, *and not the best*, mill in Bombay island, the whole of the raw material may be manufactured in the existing mills; or in the alternative, the whole of the Indian demand for cotton goods may be met by Indian production so increased. The capital increment thus required may be estimated at about 13 crores of rupees or 15 crores in round figures, allowing for the higher prices of the machinery to-day. The total capital investment in Cotton Mills in India is returned at 38·83 crores in the statistics of British India Vol. 1 No. 1558 of 1922. A one third expansion would mean a capital extension of 13 crores or 15 at the most. But with such a capital expenditure, it would be possible to produce cotton goods in India equivalent to the foreign imports valued at 56·94 crores, in the latest trade returns, or 66 crores according to the prewar rate of import. We need not call this whole amount a saving to India; but even if the freight charges alone be taken into consideration, as regards this item of our import trade, it would mean a considerable saving to the country. And in this argument, we take no notice of the increased scope for employment which the expansion of the industry by a third, or half, of its present strength would bring in its train for the Indian labour. I submit that here is a case for serious reflection to any one interested in the trade of India in general, the economic prosperity of its people at large, or even in the immediate welfare of the cotton industry alone. In my judgment, while there is no chance worth speaking for the efficient revival and economic operation of our ancient handloom industry, notwithstanding all that the political agitators may say to the contrary, there is a most excellent case for the expansion of our cotton mill industry on the modernised scale, with a view to save 60 crores of rupees per annum being drained away to pay for foreign imports.

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* Really speaking the strength of the Home market would be=foreign imports + domestic production-exports of Indian production. But as the exports total only 161 million yards out of a total production of 17 31, million yards, we have ignored that factor, especially as, out of the total foreign goods imported, 73·6 million yards were re-exported.

† In 1921-22, exports aggregated 29,89,300 bales, as against 20,73,900 in the previous year and 23,98,600 in 1919-20.

(B.) THE ABSENCE OF A SUITABLE FISCAL POLICY

In the preceding brief analysis, we have noted two of the principal advantages which the cotton industry in India, modernised in machinery and organisation, could command plentiful supply of raw material, and the vastness of the domestic market. We have also pointed out that owing to the drain of a very large proportion of the raw materials, the industry cannot expand to its full possibilities even with the existing or necessarily increased equipment. We reserve for a later chapter, in the section of this work dealing with the tariffs in India, a full review of the fiscal policy and its bearings upon the cotton industry. Here, however, reviewing the causes explaining why the mill industry has not progressed to its full possibilities, we must mention two factors and point out their mutual co-relation: viz, the goal of Indian industrial development in this regard, and its connection with the fiscal policy. What is the goal of Indian ambitions in this behalf? I think, no one could object if that ambition is formulated as aiming at a full command of the Indian market, or, in the alternative, at manufacturing the whole of the Indian output of cotton at least. The latter would probably be more extensive, and might perhaps operate so as to hinder the Indian industry from turning out the best results. The bulk of Indian production in yarn is confined to lower counts as shown by the marginal noted table.

* Nos. 1 to 10= 9,80,73,261
„ 11 to 20—37,12,96,259
,, 21 to 30—20,31,61,956
„ 31 to 40— 1,69,00,186
Above 40— 2,38,9,279

This is probably due to the relatively inferior quality of our short staple cotton. For superior counts, and finer goods, if our mills are to produce them, we must depend on raw material imported from abroad, whether from America or from Egypt. Personally I would leave it as an open question as to whether the Indian cotton industry should progress on the lines of turning out superior quality of goods from raw material imported from abroad, and thus make the output supply all grades of demands in the Indian market, using little more than the present consumption of the domestic material; or whether the industry should aim at using up the whole of the domestic material without much regard to the possibility of improving the quality of the goods. For in either case, capital extension would be unavoidable, and would be more or less the same. In the former case, however, it must be remembered that the industry would be made dependent upon the foreign supply of raw material, which, in the event of a war or an international complication, may quite possibly be cut off. In any case, the goal seems to be perfectly legitimate and unlikely to cause discriminating retaliation in other countries, as we would not be interfering with their markets outside India, since we would not have, as a definite goal, the building up of a great export trade in Indian cotton manufacture. Any changes in the tariff policy must therefore aim, *not* principally at developing an export trade in the cotton manufactures of India, but rather at securing as large a share as possible of the Indian industry. Duties on foreign imported manufactures would therefore be unavoidable at a fairly high rate, and may be graduated according to the quality of goods, if it is intended to make Indian production supply all grades of Indian demand. On the other hand, if the aim of the tariff policy is to get the whole of the Indian raw material manufactured in Indian mills, the tariff would have to be a combination of high import duties together with a system of export duties on raw materials to secure the whole supply for the Indian mills. Such a policy, it must be noted, would run the risk of conflicting with the apparent interest of the Indian agriculturist or the producer of the Indian raw material, by unnecessarily limiting his market. The range of cotton prices in the last two or three years makes this argument peculiarly flexible. But we would not press it beyond just pointing out its obvious difficulties. As the Indian fiscal policy has up till now been framed with a view to a complete disregard of Indian ambitions, whatever they may be, in regard to this industry, we need say no more on this point.

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* This is taken from the *Indian year Book* for 1923 p. 340. The foreign imports by different counts are given as follows in lbs. 1 to 20—6,961,000; 21 to 25—1,219,000; 25 to 30 4,238,000; 31 to 40—26,741,000; Above 40—8,881, 000. cp. annual review of the trade of India. p. 3 The figures are for 1921-22.

(C) THE RISE IN PRICES

The last, and perhaps the most effective, explanation why Indian cotton industry on the modernised scale has not made the progress which it may reasonably and legitimately be expected to make, is to be found in the rather short sighted policy of the proprietors and managers of the industry. They have been criminally indifferent in improving the quality of the goods by proper attention to the raw material consumed, and the machinery employed. No attempts worth the name have been made by the Indian cotton industry to improve the staple of the material available or possibly producible in the country.* And such material as is available is at the mercy of the speculators, so that the mill industry finds one of the most important ingredients in the cost of production practically beyond its control. The price of the raw material is an important factor in the relative cost of production; and no one could be permitted to urge a policy of restricting exports of the raw material by means of export duties or licenses, with a view to guarantee a plentiful supply for the Indian mills, so long as the entire cotton industry is so far lacking in organisation as to permit and endure the wild outbreak of speculative mania which disfigures the history of the cotton trade. It is not merely the outsiders or exporters who are guilty of such reckless speculation. The agents of the leading mill companies can hardly be credited with thoroughly clean hands. Their admission to the recently established Cotton Contracts Board,–intended to minimise the evils of boundless speculation—is hardly commensurate with their real importance in the entire cotton industry. In any case, while the prices of raw material are fluctuating so violently as they have done in the past few years, the industry can scarcely confine their prices of the finished goods at all within the level acceptable to the consumer. The war gave an enormous, effective protection to the Indian cotton industry, which those concerned sadly failed to utilise so as to exile for ever the foreign competitors in India. The following table is an eloquent tribute to capitalist greed and short-sightedness in so raising prices as to keep neck to neck with the foreign goods, and thus make the Indian consumer unable to perceive the real benefits of fostering industries on a modern scale in India.

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* For the different varieties of cotton in India cp. Watts op. cit. pp. 575 et seq; and also *Chisholm's Commercial Geography*. See also the report of the *Indian Cotton Committee* 1919, which mentions the progress of American cotton in the Punjab as follows:—

"The total area under American cotton in the Punjab in 1913 was estimated at 30,000 acres, of which 80 acres were of the 4F variety and 400 acres were of 3 F. Since then the 4 variety has spread very rapidly, and, in 1917, out of a total area of 2,76,000 acres under American cotton in the Punjab, at least 1,80,000 acres were under it. It is estimated that in the present season, (1918-19) there are at least 3,00,000 acres of pure 4L cotton and between 50,000 and 60,000 acres of other American variety" (op. cit. p. 19) In the same work, in 1920 acreage under American cotton was estimated to be 4,650,00 in the Punjab alone, with a possible increase under additional canalisation of another 200,000 acres. That document also outlines the history of the Sind failures to grow American or Egyptian cotton in spite of repeated efforts (pp. 73-75). But all these attempts are primarily and almost wholly Government endeavours towards which the cotton industry as such maintained an attitude at best of only a benevolent neutrality.

Average declared Price per yard of:—

	* IMPORTED GOODS.									INDIAN GOODS EXPORTED.								
	Grey.			White.			Coloured.			Grey.			White.			Coloured.		
	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
1913-14	0	2	8	0	3	11	0	3	5	0	2	7	0	6	0	0	5	0
1918-19	0	6	6	0	7	11	0	8	4	0	5	7	0	7	1	0	7	8
1919-20	0	6	9	0	7	11	0	9	10	0	6	4	0	7	1	0	7	7
1920-21	0	7	4	0	8	4	0	11	4	0	7	4	0	9	11	0	8	7
1921-22	0	5	8	0	6	7	0	8	9	0	6	[illegible]	0	9	1	0	7	7

* This table is taken from the *Annual Review of the Trade of India for* 1921-22 p. 17. Official publications are not the proper means for giving expression to one's sense of the ludicrous; and so we cannot quite say if the following comment on the table made by the compiler of the document was intended to be sarcastic: "The difference in price between imported goods and Indian mill-made goods was partly due to the fact that the boycott of foreign goods enabled Indian mills to maintain their prices above parity with imported grades." But its grim reality is beyond suspicion.

The following extract is from an editorial comment from the *Times of India* of March 21st, 1923, reviewing the presidential address of the Bombay Mill-owners' Association. Mr. Kay, the President, had estimated the profits of the mill industry for 1922 at 40 p. c. less than 1921 and 70 p. c. below those of the record boom of 1920; he was apprehensive of hard times ahead for the industry, and so hinted at the possibility of a substantial cut in wages as the only means to keep the industry going. The *Times of India*, a journal with hardly any labour sympathies to speak of, says :—

"When it comes to basing arguments on the theory that the "cotton trade is deteriorating" one reaches very debatable ground. What the theory means is that the industry will earn less profits during the current year. That need surprise nobody. The three years which ended with 1921 were boom years, and, on a paid up capital of something like twelve crores of rupees--the capital of the Bombay mills only—an average of fifteen crores a year gross profit and of twelve crores a year net profit (after deduction of commission and depreciation) was earned. The figures for the Ahmedabad mills would probably show only a slightly lower rate of profit It would be lunacy to expect that these high profits could be maintained. Even it there were a drop from twelve to two crores, that would still represent a substantial return on the paid up capital. Such a figure would have been reckoned a good return in any pre-war year ; and, if only the exaggerated ideas of profit expectancy begotten by the war are cast away, it will be regarded again as a good return for the money invested in the mill industry. Moreover, it is unlikely that the mills will feel the pinch of competition with the mill industry of other countries more acutely this year than formerly. and they will have the same area of market open to them. Even the increase in the cost of raw cotton will not affect them much since most of the mills have already arranged for their supply of raw material for the current working year at prices which ruled before the enhancement. The evidence, we think, points to the certainty that the mills will be able to carry on at least for another year without any disastrous slump in prices and profits, certainly without loss. It is, therefore premature to attack wages on the grounds advanced by the Ahmedabad mill-owners."

Says, the Indian Year Book, for 1923 :—

For the year 1921, the profits, are 15.39 crores, less 1.40 crores Commission, less 1.77 crores depreciation. The net profits, therefore would be 12.22 crores. We have given in dividends 6.41 crores or 33 per cent on Capital; Salaries and wages come to 7.82 crores; insurance 30 lakhs, interest on borrowed money about 80 lakhs. The net earning on paid up Capital works out at 63 per cent. The Spinning mills which are very few in number earned

Here was a windfall of effective protection to the extent of between 250 and 300 p. c., entirely gratuitous, and sufficiently long continued to permit the building up of the Indian market so as to oust wholly the foreign competitor. Instead, the cupidity of our mill-owners led them to declare cent. per cent. dividends and more, with the unavoidable consequence of a *riotous outbreak of speculation in the mill scrip*, and the incidental concomitant of a progress of Japanese goods in the Indian Market in the four years of war, nearly ten times as much as that people had accomplished in forty years of peaceful penetration. Indian opinion is practically unanimous in the desire for a protectionist fiscal policy; and the cotton-mill owners have been vociferously supporting that demand. But no amount of fiscal protection can be so great as the one afforded by the War, as most the tariff changes, when they materialise, would not afford protection in excess of 50 p. c. *ad valorem*. In return the consumer, that is, the country at large, is entitled to know if the cotton industry will not assert once again the predatory instinct peculiar to the capitalist organisation, and dissipate in private gain the advantage purchased at a national sacrifice. We cannot honestly say that the history of the Indian cotton industry gives reason to hope in this regard; and much as one would like to afford all the necessary and even possible protection to our own industry for safeguarding it against unfair competition from abroad, in the interests of the country at large, we cannot quite approve of changes in fiscal policy that would omit to incorporate a guarantee against an undue abuse of such advantages for private benefit, against an unpardonable inactivity for the necessary extension of the industry to achieve the modest goal, mentioned above, within a defined period. If protection to cotton industry by fiscal measures is decided upon—and, in its present state, the decision cannot be avoided—it will have to be temporary and regressive so as to provide some safeguard for the interests of the consumers, some sanctions against the misuse of special advantages by private capitalists.

Perhaps the best method to afford protection to an industry, so well established as the cotton mills, would be to alter the very organisation of

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(Continued from p. 137).

about 56 per cent. on Capital; and gave 28 per cent. dividends. The weaving mills earned 63½ per cent. on their Capital and gave about 33½ per cent. in dividends.

Year.	Profit.		Less Commission (Lakhs.)	Less Depreciation (Lakhs.)	Wages (Crores.)
1905	3.47	Crores	47	65	2.10
1910	.60	,,	26	75.50	2.56
1915	1.86	,,	33	83.37	3.00
1916	3.12	,,	42	84.62	3.18
1917	6.74	,,	76	85.28	3.76
1918	4.97	,,	61.50	4.82	4.02
1919	13.06	,,	131	86.37	5.00
1921	15.39	,,	140	1·77	7.92
1922	9.24		...	...	...

the industry. It may sound ridiculous, but it is nevertheless not an absurd proposition, to say: that if all the cotton mills in the cities of Bombay and Ahmedabad-and, for the matter of that, jute mills in Calcutta, and woollen mills in Cawnpore—were municipalised, by compensatory expropriation of the present owners, the sum total of the objections against modern industrialism would be avoided. I quite realise that the state of education in the Indian public is by no means so advanced as to permit of such a suggestion being even discussed rationally and temperately. But if we are to assist by fiscal measures the development of old and new industries to a point where we can expect to meet at least our own demands by our own products; and if we are simultaneously to avoid or minimise the incidental hardships upon the consumer and the labourer in consequence of increased prices and profits; if we would avoid the tyranny of the trust, and yet secure the benefits of diversified employment in large scale industry, I see only one other alternative to the existing capitalist system which might possibly reconcile the conflicting requirements mentioned above. The problem of modern industrialism is at least as much concerned with equity in distributing the national wealth, as with efficiency in producing it. The Co-operative principle offers a solution, which, while I personally do not feel quite sanguine about it, is well worth a trial, if only to demonstrate the utter futility of private property in any form, and private gain as an incentive in any shape. Production on a co-operative basis is as yet quite unknown in India. The way in which it might be applied to such a well-established industry, as that of the cotton mills in India now exclusively under capitalistic organization, may be outlined thus: Since the nearly 300 mills now working require a total capital, including debentures, of about 42 crores of rupees, we may take it that the average capital equipment for a modern mill would be 14 lakhs of rupees. Assuming, now, that the whole of the necessary expansion of this industry takes the form of additional mills of average equipment, organised exclusively on the co-operative basis, we should need a hundred mills with at most 15 crores of capital. If the mills are all located next to the sources of the raw material, they would centre largely in the Bombay Presidency, the Central Provinces and the Punjab. The cotton growing districts of each of these provinces may be well trusted to find capital for two or three mills each—or even more—provided, of course, the infatuated advocacy of capitalistic organisation and private initiative is so far relaxed as to permit expedients being devised to attract the capital resources of cotton cultivators or their immediate financiers. I would, preferably, form the co-operative association out of the producers of the raw materials to start and staff the mill—at least as far as the ordinary labour is concerned. To the mill thus financed and started on a strictly co-operative basis,* the labour may be supplied also from the associates or their dependents, with a view, in fact, to take off the surplus population now unduly pressing upon the soil. The reconciliation of the interests of labour as a factor in production, and of the same group of individuals as proprietors in a co-operative concern engaged in production, is no doubt a difficult nut to crack; but we need not despair of a successful solution even though the history of such attempts in countries more advanced, industrially speaking, than our own, makes very distressing reading to the co-operative enthusiast.* The raw material would be supplied by the co-operating associates at market rates, with, however, adequate safeguards against undue fluctuation by violent speculation. The introduction of the co-operative principle in the modern large-scale cotton manufacture would tend, of its own accord, to restrict, even if it cannot avoid altogether, the chaotic condition of the cotton market under the influence of unrestrained speculation. In so far as these injurious tendencies are not automatically restrained by the adoption of the co-operative principle, the associates would have to fix their own margin of price-fluctuations as regards the raw material, with due regard to the reimbursement of the producer, the cost of transport if any, interest on capital invested, and the normal level of prices of the corresponding quality in the local as well as the international market. The mill of course, when started and supplied in the manner described above, must be operated exclusively on the admitted principles of commercial enterprise as regards all just and possible internal and external economics in every department. The collective principle would once again assert itself at the point of disposing of the outturn. As far as possible, the outturn should be marketed through sale agencies of the Association itself within the district, or even in some central market of a large city like Bombay. It may even be possible to evolve a co-operative prototype of the German Cartel and the American Trust for controlling and co-ordinating the co-operative mills all over the country, through a central organisation guaranteeing quality of goods to the consumer as well as regularity of delivery at fair prices, and, to the producers, securing and distributing orders, standardising qualities, and all other services that the German Coal Syndicate, for instance, used to render to its members. If these conditions are fulfilled, I have no doubt the industry would soon reach the goal we have in view, and be profitable alike to the producer and the consumer, facilitating fiscal protective changes in every department, including restrictive legislation against foreign capitalist availing themselves of the protective tariff wall to squeeze for their own private benefit the Indian consumer.

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* The initial and fixed capital must be provided by the associates themselves; but what is known as the working capital may be provided by an Industrial Bank, of the sort, for example, outlined in the present writer's *Indian currency, exchange and Banking*, Part III, ch. IV pp. 381-412.

The importance of the cotton trade justifies the rather long review of the present position and prospect of the Indian cotton industry appended here. We have incidentally or specifically considered the peculiar advantages that the modernised cotton industry has in this country, viz, plentiful raw material produced within the country; an excellent, extensive and varied home market; and an abundant, if somewhat unsteady, labour supply. We have noticed the progress that the industry has made* and the prospects still open to it. We have examined the explanations accounting for the relatively backward conditions or at least the slow progress of that industry such as the drain of the raw materials, the absence of a suitable fiscal policy and the short sightedness of those at the head of that industry. We have suggested remedies in each case, with due allowance for possible difficulties and with a view to achieve the goal of this industry's development,—formulated definitely by us in an alternative form,—in the shortest possible time. On the whole, however, I feel, that difficulties considered and the remedies suggested will not be all as successful as they might be, if a radical change in the organisation is omitted. The capitalist regime has had its day, but threatens to fail under the stress of the future expansion. I do not personally think that the co-operative organisation would be an unqualified success. It is, however, well worth a trial and will have to be tried before the Socialist principle could be attempted.

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* Cp. on this point a special *Supplement to the New statesmen* of May 30, 1914 and Redfern's history of the C. W. S. 1913. See also Fay, *Cooperation at Home and Abroad*, pp. 149, et seq, and Mr. and Mrs, Webb's *Consumers' Co-operative Movement.*

XLII. OTHER TEXTILES.

It is customary to discuss at one place the trade in analogous textiles of Jute and Silk. As Jute however is much more important on the export side, it will be more appropriate to reserve its treatment to the next chapter dealing with the exports of India. Silk, however, is much more important on the import side, and closer akin to cotton in organisation as well as operation. We may accordingly discuss it here. We are nowadays a fairly considerable importing country in silk both raw and manufactured as evidenced by the figures given elsewhere.† In 1921-22, silk-piece goods imported aggregated 14 million yards valued at Rs. 2⅜ crores, as against 22½ million yards valued at over Rupees 4 crores, in the preceding year. The bulk of our supplies was derived from Japan (122 lakhs) and China (101 lakhs). The share of the United Kingdom was only 4 lakhs. As regards silk goods mixed with other materials, they came principally from the United Kingdom, France and Italy; and were valued at 17 lakhs as against 51 lakhs in the preceding year. The import of raw silk was valued at 19⅓ lakhs of lbs of the value of 163 lakhs in 1920-21, and 16 lakhs of lbs worth 132 lakhs in 1921-22, the chief supply being from China.

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* According to Sir George Watt op. cit. the first cotton mill in India was started in 1818, while the first of the Bombay series came into existence in 1851. In 1877, there were 51 mills, with 1,244,206 spindles and 10,385 looms, consuming about 2,67,000 bales of cotton and employing 43,000 workers. In 1922, there were 298 mills, with 7,331,219 spindles and 134,620 looms employing 343,723 men and consuming 2,203,540 bales of cotton.

† See ante table of principal imports. p. 123 et seq.

As already noticed in the first two sections of the Introduction, the silk production of India, in the matter of raw material, being inadequate to meet the demands of the highly developed silk industry of Mahomedan India, India has all through history been an importer of raw silk on a large scale; but also an exporter of finished goods,—a situation now entirely reversed, chiefly due to silkworm breeding and silk manufacture in France and Italy. Sericulture is not at all unknown in India; but its possibilities have been ignored, of late. The possibilities of the silk industry have been recognised by authoritative investigators.* But the industry has not been developed to the height of the possibilities already investigated. Attempts have indeed been made to encourage sericulture by such institutions as central nurseries, rearing houses, enabling the whole of the seed cocoons required to be supplied from a central place. But the scheme propounded in 1913 has not yet shown remarkable success. The impetus of the war seems to have been exhausted, since the export of silk yarn in 1920-21 were only 783,448 lbs as against 1,167,530 lbs in 1913-14. Silk piece goods exported were 22,432,974 yards in 1920-21 as against 27,338,272 yards in 1913-14. And silk mixed goods exports for the same years were respectively 1,913,448 yards and 8,163,963 yards. The silk industry needs to be modernised much more effectively if the full possibilities of India in that behalf are to be realised. It has not quite suffered from the difficulties we have noticed in connection with the cotton industry. But yet the remarks in connection with that industry apply to the silk industry as regards its rehabilitation. The Indian Industrial Commission of 1916-18, in an *Appendix* (G) to their report,† considered that serious attempts should be made for the improve-

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* See Sir George Watt, op. cit. p. 992 at seq.

† "There is no very accurate statistical information regarding sericulture in India, except that deducible from the sea-borne trade returns, and this must be treated with caution * * * From the early days of the East India Company, silk was an important article of trade. From 1776-1785 the export of Bengal silk averaged 560,285 lbs, and it is probable this figure covers only reeled silk. Whether the industry made any great progress in the nineteenth century or not depends upon this point, as the total figures usually quoted from the sea-borne trade returns for the export of Indian raw silk include not only reeled silk but *chasam* or silk waste and silk cocoons. The exports reached their highest level in 1860 to 1874 when the average annual exports were 2,203,090 lbs. of which not more than 600,000 lbs were reeled silk. Taking the export figures for *chasam* as a guide, the Indian production of silk during the last 30 years has ranged between two million and two and a half million lbs. The exports of raw silk reached their maximum in 1906-07 when they averaged over 750,000 lbs, and they have fallen since to 82,700 lbs. in 1914-15 recovering in 1916-17 to 218,000".—Appendix G to the report of the Indian Industrial Commission 1916-18. It gives us 3 main regions of silk production in India: Mysore, Bengal and the Kashmir state,–the last working silk production as a state monopoly, and gaining a profit of 11 lakhs therefrom. The exports of raw silk in the latest years are:-

Pre-War average.	lbs.	1,711,000
War „	„	1,017,000
1919-20	„	1,451,900
1920-21	„	1,161,000
1921-22	„	1,151,000

Taking our national production at 2½ million lbs. at maximum, we are exporting about one-half of it if not more. Facilities to improve manufacturing establishments must accordingly be hastened in the same way as in cotton, with the goal to manufacture our own supply of raw material at least. It must be added, however, that we also import raw silk, averaging 2½ million lbs in pre-war times and nearly 2 million lbs in war times, while the latest figure puts the import of raw silk at 1,606,000 lbs.

ment of sericulture in India, as there was ample field for success. The Imperial Silk Specialist, Mr. Lefroy, appearing before the Commission, was of opinion that large tracts of India were suitable for the extension of sericulture, and that much of the silk, both raw and in the form of manufactured goods, now imported in India, might be produced in the country. Though Mr. Lefroy made no distinction between sericulture and silk industry, the Commission felt inclined to do so, regarding sericulture as essentially and exclusively a cottage industry which must end at the production of cocoons. The subsequent preparation of silk for the market, the Commission thought, should be undertaken on a large scale with modern machinery; and the experience of the Cashmere Durbar they held to be justifying the hope of substantial and immediate success.[*] Silk being obviously a luxury, the dimensions of a large-scale modernised silk industry cannot equal those of cotton or jute if our goal is modest enough to be restricted to supply our own market. But even so, considering that the imports of silk aggregates over 5 crores, efforts to develop it to this point at least—and without ulterior ambitions to capture foreign markets—can no longer be postponed.

XLIII. IRON AND STEEL IMPORTS.

Next in importance to cotton imports are those of iron and steel goods. In fact if we total up the imports of machinery, hardware, iron and steel goods properly so-called in the official list, and railway plant and machinery, the total would be far more considerable, as is shown by the following:—

		1921-22
Machinery & mill work	Rs.	34,25,51,000
Iron and Steel good	„	21,213,38,000
Railway plant & rolling stock	„	18,91,06,000
Hardware	„	5,91,90,000
	Total	80, 21,85,000

By far the largest portion of these imports are practically unbalanced by any corresponding industry in the country. India had a considerable metallurgical skill in the past; but the innovations in machinery have rendered that skill useless, and practically the whole of our yearly increasing requirements have to be imported. The possibilities of an iron and steel industry on the modern scale have not been sufficiently investigated thanks chiefly to the tacit acceptance of the plea that the iron ore of India, such as it is already known to be, is so distributed as to be impossible of an economic exploitation owing to the absence of fuel.[†] The Indian Industrial Commission of 1916-18 thus speaks of the ore resources of India as regards the principal metals:—

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[*] See *Report, Indian Industrial Commission*, 1916-18 pp. 380-384.

[†] For a brief history of the attempts to develop the Iron industry of India cp. Watts, op. cit. pp. 688 et seq.

> " *Iron* ore is found in many parts of the Indian continent, but the instances in which ore of good quality exists in suitable proximity to satisfactory coal supplies are not very numerous though sufficient in all probability to warrant large extensions of the existing iron and steel works. Rich deposit of *lead* and *zinc* ore exists in the Shan States of Burma, but, although the mine is in active operation, no attempt has hitherto been made to smelt the latter metal in India. The *Copper* ores of Singhbhum, a district of Chota Nagpur, have as yet scarcely been exploited, although a mine has been developed, and smelting works have been erected and have already started operations. High grade *chromite* is produced in large quantities in Baluchistan. The *bauxite* deposits of India, the best and largest of which are found in the Central Provinces, were made known to the public by the Geological Survey some years ago, but have not yet been used as a source of *aluminium*. *Manganese ore* is extracted in very large quantities in the Central Provinces, and to a less extent in Chota Nagpur, Bombay, Mysore and Madras. At present it is mainly exported in a raw state to other countries, although the two existing iron and steel companies have, since the war, manufactured considerable quantities of *ferro-manganese*.
>
> South Burma is one of the richest sources in the world of *tungsten* ores, occurring in the form of *wolframite*, which has now become almost indispensable to mechanical engineering as an ingredient in "high-speed" steel. *Tin* is also found there and in other parts of Lower Burma, and successful dredging operations are carried on in Tavoy. Ores of *antimony* are found in the Shan states, in Tennaserim and in Mysore, but none of these has as yet been successfully exploited. India also takes the first place among the mica-producing countries of the world."*

With such metallic resources, it is a little surprising that the Indian output of machinery of every kind is practically nil. The Indian Fiscal Commission was aware of this weakness in the industrial programme it envisaged for the country when it recommended that machinery imports should not be taxed, either for protective or for revenue reasons.† The recent Indian enterprise in iron and steel industry, though it flourished awhile under the extraordinary and artificial stimulus of the war, is now again in the slough of depression. The extensions in the Tata Iron and Steel works have no doubt laid the foundations of a machine making industry; but it must be long, very long, before India is able to meet from her own resources the machinery requirements of her newly developed or modernised industries.‡ The Indian demand for some years to come must remain strong in the world markets for machinery, since India cannot wait for the development of her other industries, like sugar refining or leather, until the steel industry is fully brought up. Considering only the two items of mechanical devices for water-lifting from wells for irrigational improvement, and sugar mills on a small scale, the Industrial Commission of 1916-18 calculated n immediate aggregate machinery demand of India at 80 crores.[*] And to that we add the machinery needs for the textile industries, mining nd metallurgy, ship-building and road-traction, leather and printing rades,[†] the total machinery demand for a full industrial development of ndia could not be estimated at under 300 crores of rupees.[‡]

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* Paras 55-56 of the Report, *Indian Industrial Commission.*

† Op. cit. para 109 "For the development of industry in general the free import of machinery is evidently desirable. On the other hand there are obvious advantages in the encouragement of the manufacture of machinery in India. But this encouragement should not, as a rule, be given by import duties."

‡ The Indian output of iron is returned at 563,750 tons for 1919 in the statistics of India for 1922 Vol. I only in one year before—1922—was the figure exceeded. Manganese ore is returned in the same document at 537,295 tons and wolfram at 3577 tons for 1919.

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[*] Cp. para 88 and 89 of the Report.

[†] The following is an analysis of the principle articles of imports in this group:—

	1920-21	1921-22
Machinery and millwork—	In thousands of Rs.	
Metal working Machinery (including Machine tools)	1,54,77	1,24,49
Textiles, Cotton	3,67,38	7,64,18
" Jute	3,77,67	4,32,15
" Other sorts	27,20	85,66
Prime-movers	2,44,88	2,90,61
Electrical	2,18,86	3,89,93
Paper mill machinery	31,91	33,88
Sewing and knitting machine and parts	68,06	28,71
Boilers	1,58,74	2,55,42
Tea	39,11	26,86
Mining	29,76	72,91
Typewriters	36,33	15,52
Rice and flour mill machinery	55,48	64,23
Sugar	17,55	88,46
Other kinds	5,09,37	7,52,50
Total	22,37,57,	34,25,51
Metals—		
Iron and Steel—		
Sheets and plates—		
Galvanised	3,04,11	3,18,01
Tinned	3,42,26	1,38,45
Not galvanised or tinned	3,83,42	1,65,52
Bars and channel (steel)	4,72,03	2,89,98
" " (iron)	69,42	49,47
Beams, pillars, girders, and bridgework	2,86,17	1,63,28
Pipes and fittings, cast	1,04,91	96,08
Tubes, pipes, and fittings, wrought	3,05,96	3,00,05
Hoops and strips	99,53	58,66
Angle and spring	98,46	55,57
Nails, rivets, and washers	88,58	39,69
Screws	24,23	7,22
Rice-bowls	6,07	1,29
Steel (cast)	43,57	23,18
Other sorts	5,00,66	4,06,93
Total	3,12,938	21,13,38
Railway plant and rolling-stock—		
Carriages and wagons and parts	6,514,43	8,8998
Locomotives	4,33,21	5,90,90
Materials for construction—		
Rails, chairs, and fish-plates of steel or iron Tons	1,29,08	1,50,26
Sleepers and keys of steel or iron	77,62	92,03
Sleepers of wood	48,09	23,31
Bridgework	23,01	79,57
Other kind	47,61	65,01

As all this machinery is impossible to be produced within a limited period within the country itself, even granting we have adequate skill and equipment as well as resources for it, the demand must be made good by imports.

XLIV. SUGAR IMPORTS.

The next item in importance of value in the Import schedule is that of Sugar. The imports of sugar had fallen in 1920–21 to the fourth place in value, but in the next following year they once more took their third place as in 1913-14, after cotton goods and machinery. India is the third largest importer of sugar in the world, with the U. S. A. of America leading, and Great Britain following a good second. Sugar is the only article of food which has been imported into India to any considerable extent, with the consequence that the Indian producer has suffered from foreign competition, which has been artificially supported by export bounties and cartel regulations. The sugar imports of India are the more remarkable as she has "a larger acreage under this crop than any other country in the world"*

(Continued from p. 145)

Hardware—			
Implements and tools		1,18,16	73,70
Lamps and parts		88,82	48,54
Builder's hardware		67,17	32,55
Agricultural implements		42,93	26.38
Enamelled ironware		42,98	20,13
Domestic hardware		27,13	11,89
Other sorts		5,21,19	3,78,71
Total		9,08,38	591,90
Coal coke, and patent fuel	Tons	30,37	5,85,05
Instruments, apparatus, and appliances—			
Electrical		4,18,39	4,06,34
Musical		37,25	17,84
Scientific and philosophical		43,90	34,53
Photographic		29,50	25,97
Other kinds		52,07	30,12
Total		5,81,11	5,14,80

‡ For a fully equipped industrialism in India the machinery needs may be estimated as follows:—

Agriculture :	Rs.	100	crores
Mining & metallurgy	"	25	"
Railways	"	25	"
Other Transport	"	25	"
Ship-building	"	50	"
Textiles	"	25	"
Leather	"	10	"
Paper	"	5	"
Oils	"	5	"
Printing	"	10	"
Miscellaneous	"	20	"
Total		300	"

* op. *Indian Industrial Commission* para 50. The area under sugar cultivation in 1921-22 was 23,95,000 acres as against 25,76,000 acres in 1920-21. The output of sugar was 25,99,000 tons in the last year and 25,22,000 tons in the preceding year.

> "The obstacles in the way of increasing local production lie mainly in the poor type of cane and the inferior cultural methods in the principal cane areas; x x x and in the very small holdings on which cane is grown, with the consequent impossibility of securing regular supply requisite for a modern central factory."[*]

Of the total sugar consumed in India only a fourth is, roughly speaking, imported, the remainder being grown within the country. If Indian sugar is to supply the whole of the Indian market, the expansion needed is only at most a fourth of the present production. And since, according to the Industrial Commission, a third of the home grown sugar is wasted owing to the inefficiency of the primitive methods of production, the expansion necessary will in no way encroach upon the area under a cultivation for their requirements; but will be almost entirely supplied by improvements in the cane-crushing and sugar refining industry. This does not indeed, imply that in our view there is no room or need for agricultural improvements in regard to the production of sugar-cane.[†] In a special appendix (C) to their report, the Indian Industrial Commission considered the chief difficulties in the way of the necessary expansion of the local sugar industry to be (1) the smallness of holdings that prevented sufficient cane to be grown to keep a modern cane-crushing and refining establishment regularly and profitably occupied; (2) the defective irrigation system which effectually limits the supply of cane; and (3) the absence of adequately equipped sugar factories to make the finished product of as good a quality as now caters the world market. The two first are purely agricultural difficulties; and may be remedied by an extension of the system of co-operative holdings, which is yet not understood or recognised by the revenue authorities inIndia.[‡] And if this slight change cannot be condoned by the Land Revenue authorities, the recommendation of the Industrial Commission :

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[*] op. cit. loc. cit above.

[†] Says the *Industrial Commission*:

"It is well-known that in many cases the yield per acre of Indian crops is very much lower than that obtained in other countries. The average weight of stripped cane per acre in the principal sugar-producing tracts of India is only ten tons against forty tons in Java. In India 98 pounds of ginned cotton are obtained per acre; in the United States nearly 200 pounds and in Egypt 450 pounds. The average yield of rice per acre is only about half of what it is in Japan. India cannot however claim to set off against the lower yield a greater economy in the use of her available labour." Op. cit. para 85. Against this we might note the observation of the *Indian Sugar Committee* (1921) that the average production of sugar to the acre in India is 1.07 tons against 1.96 tons in Cuba, 4.12 tons in Java and 4.61 tons in Hawaii. The comparison is even less favourable to India if it is remembered that 99 p. c. of the sugar produced in India is in the form of *Gur* which is in reality a sweetmeat and yields not more than 50 per cent. of refined sugar, while the cane sugar from other countries yields on the average 90 p. c, the residue in each case consisting of molasses and waste.

[‡] The Director of Agriculture in Bombay has recently proposed a co-operative holding of some 800 acres the success of which experiment would be unquestioned, if the revenue authorities could be induced to forego their moth-eaten methods of obstruction.

> "The real remedy is obviously to introduce power-crushing plant of sizes suitable to the cane area available and to the purchasing power and technical skill of the people."*

will have perforce to be accepted. So long as India has no ambition beyond supplying her own markets by her own products, no desire to create international complications by seeking to develop an export trade, there need not be any great apprehension that the above remedy would not suffice. Improvements in methods of production stopping short of the large-scale factory with up-to-date equipment would quite suffice to increase our production of sugar just to the level of supplying our own market. It would still, indeed, leave a great waste; it would needlessly cripple the development of industrialism in India. But in view of the other economic considerations, perhaps it would be as well to be content with a modest programme.†

XLV. OILS.

We need not notice at any great length the item of grain, pulse, and flour, which, though amounting in 1921-22 to Rs. 9,35 lakhs, is somewhat exceptional. Wheat alone accounted for Rs. 9,14 lakhs. Though the main heading of Food, Drink and Tobacco in the Import summary amounted to Rs. 50,62,93,000 in 1921-22, it averaged 21·84 crores in pre-war times, and 26·39 crores in the war times, without allowing for an increase in prices. Since the war, this item is no doubt growing; but the bulk of the growth is taken up by sugar as is shown by the marginal table. In the matter of food stuffs of all kinds, India is not only a self supporting country, but is a very considerable exporter, though at some pinching of the standard to herself. The item of liquors and provisions, which accounts for over Rs. 6 crores worth of imports, and constitutes a very steady feature of our import trade, is the result of the peculiar tastes of our non-Indian population,

Imported Articles of Food, Drink and Tobacco.
(In thousands of rupees)

	1919-20	1920-21	1921-22
Sugar	22,99,27	18,50,30	27,50,28
Grain, pulse & flour...	3,08,91	5,06	9,35,59
Liquors	2,90,77	4,21,17	7,203,3
Provisions & Stores...	2,90,91	3,60,96	2,70,36
Spices	2,26,53	1,91,08	1,92,59
Other food & Drink...	2,32,25	2,44,04	1,69,69
Fruits & Vegetables	1,89,60	1,67,82	1,68,00
Tobacco	2,01,87	2,95,91	1,65,06
Tea	53,75	40,21	55,40
Fish	19,02	20,59	18,77

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* Appendix O. para 14 *Indian Industrial Commission.*

† The fiscal policy of the country would be as important in this as in the case of other industries. But the Government of India have of late been treating sugar as a luxury article and accordingly taxing it at a rate which may fairly approach the protective level. The modernised factories of U. P. have not appreciably benefited from this duty probably owing to the difficulties already enumerated. The suggestion of the Indian Sugar Committee of 1919-21 for a Research Board has not yet been taken up by Government; while the recommendations of that Committee have gone more on the lines of improving the industrial rather than the agricultural side of the problem.

which prefers preserves to fresh goods. It is probable that there is considerable room for the development of a tinned food industry in India; ubt it is problematical if the exi-guous tastes of ourforeign residents would permit them to patronise the indigenous produce. The item is, indeed, considerable enough to demand a trial; but the knowledge as well as the incentive in this regard seem to be lacking at least among the Indian entrepreneurs. It may be questioned, therefore, if any kind of state aid, short of direct state operation of the industries concerned, would help to provide supplies of these materials within India. The Industrial Commission did, indeed, write, as regards the possibilities of fishing in Indian waters—

> "Striking evidence was also placed before us regarding the immense future which awaits a more active development of Indian fisheries. It has been abundantly demonstrated by the few investigations that have been hitherto conducted in Madras and Bengal, into the possibilities of deep sea-fisheries, by trawling, netting or line-fishing that a very large supply of food can be obtained from this source. x x x x x x x x x The Madras Fisheries Department has shown that much can be done to improve the methods of sea-fishermen in drying fish and preparing fish oil and fish manure. As a result of its exertions, some 250 small fish-oil factories have been established along the coast, mainly by the fishermen themselves; and still further improvements in the preparation of the oil have been worked out by Sir F. Nicholson, the honorary Director. The possibility of preparing tinned and cured fish of high quality has been amply demonstrated on a commercial scale. x x x x x x x x The capture, preservation and transport of deep-sea fish require investigation and demonstration on a commercial scale. An organisation for the marketing of the fish will also have to be provided. Owing to the present uncertainty of the results and the various difficulties interposed by the strorg position of the middlemen, the absence of refrigerating storage and other causes, there are many obstacles to overcome, and private enterprise is not likely to enter this field, until Government has fully shown the possibilities of the industry and expert employees are available." *

But the import of oils, whether mineral or vegetable, cannot be dismissed quite so lightly. The following table gives an analysis of the oils imported into this country from abroad.

(Continued trom p. 148.)

As regards the prospects of non-cane sugar in India, the Sugar Committee are not hopeful of any extension of the palmyra sugar industry which is handicapped in South India by shortage of tappers and in Upper Burma by shortage of fuel. They consider that there are great possibilities of improving the yield and quality of the gur made from the juice of the date palm in Eastern Bengal and recommend that the investigations already carried out on this question should be prosecuted to a conclusion, before any attempt is made to develop other date palm areas. It is only in the North West Frontier Province and the Punjab that beet sugar offers any prospects and there further experiment is necessary under more diversified agricultural conditions and closer chemical supervision. The Peshawar Valley seems to offer a unique opportunity for a combined cane and sugar factory.

* *Indian Industrial Commission* paras 69-70.

(Figures are in thousands of rupees)

Imports,	Average Pre-War.	Average War-time.	1919-20	1920-21	1921-22
Oils: Mineral,					
Kerosene	2,71,16	2,37,57	6,62,34	4,30,73	3,46,19
Others	1,00,87	1,64,73	2,64,14	4,03,36	3,87,75
Animal	8,42	8,40	1,34	83	1,19
Vegetable	10,00	8,37	8,66	24,76	14,92
Essential	4,43	4,86	7,28	16,72	6,09

The total area under 4 principal kinds of oil-seeds viz. Linseed, rape and mustard, sesamum and groundnut, is returned, for 1921-22, at 15,700,000 acres in India giving a total seed yield of 3,015,000 tons for the same year. These do not include copra and castor seed and also cotton seed, the oil from which is by no means an insignificant quantity. The seeds exported totalled about 735000 tons valued at Rs. 17,40,69,060 in 1921-22, while the pre-war export averaged Rs. 24,36,97,000, the war export Rs. 12,17,42,000, and the maximum post-war figure was Rs. 26,26,90,000. The Indian Fiscal Commission (Majority Report) has conceded the practically monopolistic nature of some of these seeds produced in India.*

> "It would perhaps be more correct to say that no monopoly is absolute, but that all are dependent on certain conditions, though in some cases the probability of those conditions ceasing to exist is remote. Various stages of monopolistic strength may be indicated. At the lowest stage would come monopolies which are hardly more than nominal, commodities for which obvious substitutes exist or alternative sources of supply could easily be developed. Of such a nature are many of the oil-seeds of India which are sometimes loosely described as constituting a monopoly. For instance castor seed, though exported solely from India, could, it is believed, be grown without difficulty in other parts of the world. Ground-nut again, of which India produces nearly one-half of the world's exports, is a crop the production of which could easily be stimulated to a larger extent elsewhere."

On the strength of this reasoning the Commission was induced to negative the idea of an export duty on oil-seeds, as they feared it would be more difficult to build up an export trade in oil. † Without, however, stopping to discuss this somewhat crude reasoning,—which seems to hold the trade in less bulky finished product more difficult to develop than that in the bulky raw material, simply because the latter already exists,—we may yet observe that, could India succeed in working up her own material to the stage of finished products, the oil-seeds, with jute, and possibly hides, would supply one among the few examples in which it would be reasonable for her to aim at a share in the world's export trade, after supplying her own markets. India to-day does not quite supply her own requirements as the figures quoted above suggest. But if she has a practical existing monopoly of the material in question, it is difficult to see what possible objection there can be on the ground of principle or practice against our seeking to develop that trade to the utmost possibility. By seeking a slice of the world's export trade in this direction we shall in no way fall against any legitimate interests of other exporters of the finished goods, as the latter have been supplying their customers from the raw material of India. The development of a corresponding industry in India is retarded by factors analogous to those already noted in connection with the building up of the sugar refining industry. The smallness of holding prevents regular, reliable supplies in large quantities which alone can keep a modern oil factory going; and hence the persistence of the antiquated, uneconomic methods of oil-extraction still in vogue in India; hence the export of a large portion of the raw material, and the continuance of imports. Says the Industrial Commission:—

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* Para 174 of the Report of the Indian Fiscal Commission.

† Para 194 of the Report.

> "A very large proportion of the produce is exported: much of the balance is crushed either by small power plants or in country bullock-mills, the latter of which are very inefficient in oil extraction. The few mills of more modern type have found great difficulty in marketing their cake locally. × × × × × Little has been done hitherto by the overburdened agricultural department to improve the local types of oil-producing plants or to investigate the conditions under which the oil is formed in the seeds. The methods of oil extraction have been equally neglected. × × × × × We recognise that the success of large-scale mills producing oils for export depends not only on the skill with which they are worked and on improvements yet to be effected in the means of transport, × × × × but on an even more important factor—the Tariff policy which may be pursued in India and elsewhere."*

Nothing has yet been done to remedy the defects, or exploit the peculiarities noticed above to the best advantage of India; and the improvement of oil industry, with or without a view to capturing the world's export trade in oils, still awaits—more favourable conditions of industrial development.

Besides the vegetable oil, India also imports a considerable amount of mineral oil—kerosene as well as others. Her own resources of mineral oil are not quite insignificant. Two distinct areas,—one on the East comprising Assam, Burma and the islands off the Arakan Coast, and the other on the West including Baluchistan and the Punjab,—contain oil-bearing strata whose full possibilities have yet to be worked. The Burman oil-fields alone can be said to be fully developed; and their commercial exploitation on a large scale only dates from about 1886, when Burma was annexed to form part of British India and the oil industry secured for the British exploiters. Starting with an output of about 5 million gallons at the beginning of this century, the total petroleum output of India in 1920 was 293,116,834 and 305,683,227 gallons in 1921 valued at Rs. 7,95,46,328 and Rs. 8,40,59,627 respectively. Of these Assam contributed about 13 million in 1920 and 9½ million gallons in 1921, while the Punjab contributed only between 50 and 60 thousand gallons. As the rest came all from Burma, we may reasonably conclude that the petroleum production in India needs to be very largely developed still.[†]

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* Para 52 of the Report.

Of the essential oils, sandal-wood oil is by far the most important commercial product of India. It has been made a commercial success on a large scale by a 'monopolist State factory at Mysore. Other essential oils, including palmarosa, lemongrass and Vetiver or khus-khus, are also producible in India; but their extraction does not seem to be worked on a large commercial scale.

XLVI. COAL, COKE & PATENT FUEL.

Though India imported over 5 crores worth of these articles, her own production was 17·082 million tons in 1920 and 18·359 million tons in 1921. Most of the coal used for industrial purposes is that derived from the Bengal coal-fields. Though the coal mines of Central India are being brought into line with the Bengal mines, the fact remains that India, though capable, does not produce all her own coal requirements. One of the explanation for the shortage of the Indian coal output is the shortage of railway waggons and the heaviness of the railway freight charge from the principal coal-mining areas to the chief industrial centres. The result has been that, despite her own resources, India has in recent years been obliged to import English and Natal coal for the Bombay and Ahmedabad mills. But even if the temporary difficulty of waggon shortage is removed and the suicidal policy of railway rating revised to be more in line with the requirements of Indian industry, it may be questioned, according to our present information, whether India would be able to supply her coal needs from her own resources. It is possible, indeed, that with the full development of the Central Provinces mines and other resources, the coal output of India may be raised to 25 million tons per annum. But with the increasing demands of modern industry and transport it is open to question if Indian output would equal Indian demands. The deficit of coal, and the consequent shortage in steam-power, may or may not be made good by the development of hydro-electric power. The Industrial Commission, however, seems to be confident of securing an efficient alternative source of power from the fuller development of hydro-electricity; and to this end they recommend exhaustive hydrographic surveys.

[†] Says the *Indian Industrial Commission* :

"There is no possibility of estimating the prospects of oil production, and it would therefore be unwise to rely on this form of fuel to make up for the depletion of our coal supplies. The serious economic value of the oilbearing areas in Baluchistan and the Punjab is still far from being established as a commercial proposition; the oil-field of north-east Assam has shown very slow expansion, and the value of the new field at Badarpur in central Assam has yet to be demonstrated" para 96.

> "In view of the increased possibilities of water-power due to the recent advances in the electro-chemical and electro-metallurgical technology, these are now likely to produce results of practical importance. Large amounts of water-power are in commercial use in other parts of the world for the manufacture of iron, steel, alloys, aluminium, calcium carbide and various nitrogen compounds. As we have elsewhere pointed out, it is imperative that some, if not all, of these industries should be established in India; and in order that they may be successfully worked on a commercial basis, the operations will have to be on a very large scale. In these industries the working cost is mainly made up of two items: the interest on the capital outlay, and the cost of power consumed. They are essentially power industries, which can only be carried on where very large amounts of power can be obtained at rates below those usual in industrial centres "*

A detailed study of the Imports of India drives home the conclusion that though the possibilities of production in India have not yet been fully explored, and that immense increases of domestic supplies are possible in many of the articles we are now importing, the ideal of complete self sufficiency in all matters is impossible to realise and unprofitable to insist upon even for such a continent as India. It is possible, indeed, that under a temporary extraordinary emergency, like that caused by the last world war, a proper development of the resources of India might, with some difficulty, help to supply the home market by indigenous produce. And it is accordingly advisable, if not imperative, in the interests of national security though not national efficiency, that local industries be developed wherever there are possibilities for such development. After analysing the exports of India in the next chapter, we shall consider the means, as well as the evils and advantages, of such an industrial development as would satisfy the modest, legitimate ambition of seeking, either, to work up the whole of our own raw material, or, to supply the whole of our own market. Here we must note that, at least for the present and in the immediate future, there is no possibility of our being able to cut off entirely some of our imports. It is possible, and even desirable, that efforts may be made so to promote our home industry as to render altogether unnecessary the imports of foreign sugar or cotton goods within say the next five years.† But, on the other hand no amount of efforts would help to render us independent of foreign supplies in the matter of machinery, hardware, steel and iron goods, railway plant and rolling stock. We do not suggest that, because of this, no efforts should be made, by fiscal aid or other means, to develop these industries within the country itself. We only imply that their fullest development would not, judging from our present knowledge of the conditions affecting their production, make us entirely dispense with foreign imports of these indispensables of modern industrial life. The same may even be said of coal or fuel of all sorts, though the possibility of obtaining power alcohol from many a vegetable substance, which, like the prickly pear, * now runs to waste, or the economic supply of electrical energy by the better utilisation of our water resources in the rivers as well as on the coast, may make the question of foreign coal supply *of relatively second rate importance. Of the other great articles of import,* oils may not only be produced at home in quantities sufficient to meet the home demand, but may even suffice to get us a share of the foreign market, if only adequately active exertions were made to develop the oil-extracting industry, which must, in its turn, be suitably protected. Chemicals and drugs in so far as they are articles of necessaries, though now imported, must be developed within the country at any cost, as also the scientific and mechanical instruments, the imports whereof being proportionally curtailed.

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* Op. cit. para 99.

† I have given the period of *five years*, because it would take at least two years to build a mill or a first rate sugar factory and bring it into working order; and another couple of years to make the new venture find its legs. If new concerns in industries commanding such obvious advantages, as those of cotton and sugar, cannot be commercially successful within 5 years at most—of course with the present difficulties in their way obviated—they would not deserve to be protected or encouraged in any way.

On the whole, then, we find some imports to be as indispensable as they are to be unlikely to be produced in the requisite quantities at home within a near future. These must accordingly be treated so as not to be utterly cut off, nor be made unduly costly. Others, again, are not only dispensable, but their continuance in the schedule of imports may be considered as so much menace to the legitimate and necessary development of the Home industry. They must, therefore, be treated so as to render their incursion upon the local market as difficult and unprofitable as may seem to be practicable. Finally there are a few commodities which are producible in the country in such abundance that the fact of any foreign import in those lines appears to be a positive disgrace, a standing denunciation and accusation of a treatment of local resources, which no Government, with any pretensions to being sympathetic, would expose itself to. This subject, however, will be more fully discussed in the section relating to the Tariffs in India.

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* The Indian Industrial Commission did mention the possibility of obtaining power alcohol from vegetable substances, and recommended adequate research for that purpose. See para. 96 of the Report. In November 1922, a joint-stock company was registered in the Union of South Africa with a view to obtain power alcohol from prickly pear, experiments having proved that alcohol is an excellent substitute for petrol in driving a Ford car and other engines.

Chapter IV.

Following is a list of the principal articles of Exports.

XLVII. PRINCIPAL EXPORTS.

(*Value in thousands of Rupees.*)

Exports.	Pre-war average.	War average.	1919-20	1920-21	1921-22
Cotton, raw	33,27,83	33,63,19	58,65,24	41,62,88	53,96,83
,, manufactures ...	11,40,53	11,72,71	27,41,33	18,27,13	15,65,07
Jute, raw	22,20,24	12,8[illegible]28	24,69,95	16,36,69	14,04,92
,, manufactures ...	20,24,87	45,62,38	50,01,54	52,99,46	29,99,57
Grain, pulse and flour.	45,81,11	37,41,80	15,14,57	25,64,94	29,98,98
Tea	13,06,78	17,54,57	20 56,50	12,14,98	18,22,02
Seeds	24,36,97	12,17,42	26,26,90	16,83,48	17,40,69
Lac	2,20,15	2,57,06	7,26,37	7,58,26	7,91,58
Hides and Skins, raw .	10,31,60	9,88,21	23,40,62	5,24,84	5,98,14
Leather	4,29,58	7,19,24	12,71,48	3,29,53	4,03,37
Wool, raw	2,68,39	3,89,61	4,01,27	2,25,72	2,54,46
,, manufactures ...	26,00	22,21	67,38	84,42	71,32
Oils	91,90	1,87,22	6,48 65	3,48,67	2,84,34
Opium	9,96,17	2,17,35	1,96,03	2,52 61	2,05,42
Metals	54,22	82,38	1,04,90	1,78,76	1,85,15
Ores	1,14,82	1,89,63	1,50,37	2,46,29	1,70,24
Coffee	1,37,52	1,18,09	1,71,39	1,42,97	1,39,08
Dyeing and tanning substances	1,14,91	2,41,07	2,65,01	1,05,95	1,32,22
Oilcake, wax, manures and fodder	2,30,26	2,87,69	5,67,58	4,71,69	4,95,44
Spices, fruits and vegetables and fish ...	1,71,13	2,03,21	2,70,43	1,99,68	2,23,94
Provisions, tobacco, raw rubber and coir.	2,01,49	2,28,66	4,27,07	4,04,18	3,11,74
Wood and timber ...	1,00,42	71,34	1,46,08	1,26,50	63,78
Silk raw	28,04	22,[illegible]8	35,50	33,76	32,92
,, manufactures ...	7,09	5,87	5,62	5,17	2,96
All other articles ...	......	......	......	......	......

Summarised, the following ten items represent the bulk of our export trade.

(Figure in thousands of Rupees.)

Articles.	Pre-war. Average.	War Average.	1921 22	Total P. C.
Cotton : raw, and manufactures ..	44,68,36	45,35,90	69,61,90	28%
Jute ,, ,, ,, ...	42,45,11	58,42,66	44,04,49	17.7
Grain, pulse and flour	45,81,11	37,41,80	29,98,98	12.
Tea	13,06,78	17,54,57	18,22,02	7.3
Seeds and oils	25,28,87	14,04,64	20,25,03	8 1
Lac	2,20,15	2,57,06	7,91,58	3.2
Hides, skins, leather	14,61,18	17,07,45	10,01,51	4
Wool: raw and manufactures ...	2,94,39	4,11,88	3,25,78	1.4
Opium	9,96,17	2,17,35	2,05,42	9.1
Metals and Ores	1,69,04	2,72,01	3,55,29	1 4%
Total ...	202,71,16	201,45,26	209,02,00	90

XLVIII. FOOD STUFFS.[*]

These articles between them account for over *84% or $\frac{5}{6}$th* of the Export trade of India in 1921-22, and nearly $\frac{9}{10}$ in the pre-war period. There have been slight variations and fluctuations during the interval, but on the whole the export trade of India may safely be said to consist chiefly of food stuffs and raw material, and, in a very minor proportion, of articles partly or wholly manufactured. In the period before the war the food stuffs, including grain, pulse, flour, tea, coffee, edible spices &c. accounted for Rs.61.11 crores worth of exports; while in 1921-22, the latest year for which figures are available, these exports aggregated Rs. 50·60 crores in value. Of these the export trade in Tea is practically of recent origin—not more than 50 years at most. The British Isles are India's principal customer for tea; while they have a considerable alternative source of supply in Ceylon and China. The Tea market may be considered to be fairly elastic, in so far at least as there is an alternative of supply to the principal consumer, and the possibility of extension of the demand owing to the spread of the temperance habit as far as the producers are concerned. The Indian Tea is thus by no means a monopolised supply from India, and, though, it may obtain some adventitious advantage in the British market on grounds of imperial sentiment,[†] that support could hardly be relied upon to justify indifference to the production of tea.[‡] In India there is very little demand for tea, the production of which thus represents a natural surplus appropriately forming part of the export trade of the country. The production of tea has increased from 158·375 million lbs. on an average between 1895-6 and 1899-1900 to the maximum of 383·459 million lbs in 1918-19 and falling to 274·263 million lbs in 1921[§] the exports for the last mentioned year are given at 313·878 million lbs., the balance over production being probably obtained from the previous year's surplus[$]

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[*] The Indian schedules of imports and exports classify tobacco separately. India imported tobacco in the form of cigars chiefly, to the tune of Rs. 71 lakhs in the pre-war period and Rs. 165 lakhs in 1921-22, while she exported 36·91 lakhs and 71·31 lakhs respectively, the exports being chiefly in the form of unmanufactured article.

[†] The strength of this sentiment may be measured from the following:—

Tea Exports.
(In million lbs.)

	1896-7	1921-22.
Indian	150·42	317·56
Ceylon	110·09	161·61
China	240·1	57·0

Chinese exports have fallen to less than ¼ while Indian exports have risen by 110 p. c. and Ceylonese by 47 p. c.

[‡] The Indian tea production is in the peculiarly unenviable position of an indigenous industry being almost entirely in the hands of alien exploiters with non—Indian sympathies. Indian public opinion proper is therefore seldom whole-heartedly in support of that industry; and the indifference is the greater because the treatment meted out to the labourers in the Tea-gardens by the European or half-breed tea-planters in India has been so scandalous that the planter community has come to be regarded with feelings of deep aversion. It may be merely an accident of economic organisation; but it is bound to be a factor of grave national uneasiness when the economic policy for the country as a whole comes to be considered, if the relations between the planters and their coolies remain unaltered.

[§] cp. the Estimates of area and yield of the principal crops in India, 1921-22. document No. 1736 of the Commercial Intelligence Department, Government of India 1923.

[$] cp. Table. 7th annual Review of the Trade of India in 1921-22 No. 1752 of the Commercial Intelligence Department.

While in 1920–21 the tea trade had slumped heavily, owing as much to the accumulation of stocks as to the exchange debacle and the absence of the Russian demand, in the next following year, the trade recovered owing to a reduction of output combined with improvement in quality. The price, too rose in response, and lower and more stable exchange favoured the trade in 1921–22. Assuming an elastic but extensible demand, the prospects of this new industry in India may be considered to be fairly promising, as there are many a hill slope in India still open to the extension of tea cultivation. If the present unhappy features of this industry are at all to be modified, the suggestion for reserving the areas still available for tea culture to Indian farmers will have to be more fully and sympathetically considered, as much in the interests of the industry itself as in the larger, vaguer, but no less important interests of the national solidarity in this country.

The exports of **coffee** may be briefly noticed. This plant is alleged to have been introduced in India some two hundred years ago by a Muhammedan pilgrim on his return to Mysore from Mecca.* But its systematic cultivation cannot be dated earlier than the 1st quarter of the nineteenth century. At the present moment (1921–22) the area under coffee cultivation is returned as 126,900 acres, while that under tea is 7,01,10 of acres. The exports of coffee were at the maximum 360,182 cwts in 1905–6 or over 40 million lbs, while in 1921–22 they had fallen to 235,000 cwts or 26,120,000 lbs. Compared to tea this is almost insignificant. But the acreage under coffee cultivation having regularly shrunk since 1896, due perhaps to the competition of the Brazilian rival in the European markets, there is reason to believe in a possible considerable extension of coffee production in India on the hill slopes of many provinces in India.

The spice exports, though a prominent feature of the foreign trade of India still continued from the most ancient times, are by no means very important from the point of view of values.

As regards food-stuffs proper the leading articles of export are rice and wheat. Before the war food-grains by themselves constituted the biggest item of export trade, but the war-needs demanded a rigid control of the export trade in food-stuffs in the Imperial interests † and, the effects of that control have not even now quite disappeared, since famine and allied reasons required the war-time control of food-stuffs to be continued. The export trade in food-stuffs, however, in comparison to local consumption is very small as will be evident from the subjoined table:

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* See the *Indian Year Book* 1923 p. 358 Sir Geo. Watts (op. cit.) mentions both tea and coffee as having been known in India by the earliest English travellers, though he points out that the *Aini-Akbari* makes no mention of Tea.

† The indirect services rendered by India to the Empire during war-time have never quite been properly appreciated. Thus in the one item of wheat alone, which was controlled since 1915, the price depression resulting probably made the Indian producer sacrifice as much as 50 crores in the 4 years of war.

	Wheat.		Rice.	
* Year	Production	Export	Production	Export
1913-14*	Tons: 8,367,000	Tons 12,02,000	Tons 28,819,000	2,420,000
1919-20	,, 10,122,000	,, 9,000	,, 32,028,000	618,000
1920-21	,, 6,796,000	,, 238,000	,, 2,76,62,000	1,060,000
1921-22	,, 9,817,000	,, 81	,, 3,32,31,000	1,366,000†

In the normal pre-war times the rice exports totalled 7.6 per cent. and the wheat exports 14.2 p.c. of our total produce. The war time and post war statistics are unreliable, and so we may base our conclusions only on the pre-war figures. In the case of wheat the quantity grown is much smaller, and yet the exports form a much larger percentage, indicating thereby that wheat is regarded somewhat in the nature of a luxury crop. In fact, however, the entire export of food-grains is in the nature, not of a true economic surplus of production over local consumption, which may then fairly enter into the world-trade, but rather the result of a stunted standard of local life, which would deny even the bare necessaries of life in order to obtain cash in exchange for production to meet the Government dues. It is true, indeed, that there is room for a very considerable expansion in the yield per acre of all the principal crops in India, if only more economic methods of cultivation were adopted. But the possible addition of two or three times the present yield of rice and wheat and seeds and pulses and millets is inconceivable without a wholesale revision of the land revenue policy.‡ The hopeless dismemberment of land consequent upon customs of equal inheritance may have been tolerable in ages when population was by no means pressing so heavily on land as it does to-day, and when, therefore, there was available surplus land for occupation and cultivation, § whenever it was felt that the old land already under cultivation had reached its margin of economic cultivation. The evils of land *morcellement* in India are concealed in France by the French people's great advance in civilisation that has taught them to place voluntary but effective restraints on the growth of population. In India the corresponding evils may be said to be concealed by the prevalence of the joint family system; but the evils are there none the less, and any hopes for the expansion of agricultural production must be based upon only such a re-grouping of land as would permit a more profitable economic cultivation, * capable of extending the full benefits of mechanical inventions and labour-saving devices; as well as more systematic rotation of crops, a more scientific selection of seed, a more abundant supply of manure to agriculture in India. Irrigation may, indeed, temper the present most obvious difficulties, and help to improve the yield as well as the quality of such commercial crops as wheat, rice, sugar, cotton &c; and to that end Indian opinion has steadily demanded an extension of irrigation facilities which would automatically solve the famine as well as the foreign trade problem of India. The Government of India being, however, unduly committed to the prosecution and development of their Railway enterprise, they cannot find themselves in a mood liberally to favour the extension of irrigation projects. Irrigation is thus limited in India by the financial exigencies of the Government instead of being prosecuted according to the intrinsic merits of the likely benefits to agricultural wealth of India. But even if irrigation were extended to the fullest capacity, its real service would be lost, so long as land-holding in India is based on the principle of excessive and uneconomic *morcellement.* Some system of re-grouping, whether by the superimposition of collective ownership in the village, or by the formation of voluntary co-operative association amongst the adjacent cultivators in the village, or even by the minor expedient of the right of preemption accorded to one member of a family to buy out the rest and thus avoid future dismemberment of the holding—is thus inevitable, and immediately necessary, if agriculture, which represents at least 80 per cent, of the wealth of India, is to be saved from premature decay. The policy of re-grouping, it may be added, is as

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* cp. *The Annual Review of the Trade of India* for 1921-22 pp. 19-20.

† In his Report (1913) on the *Inquiry into the Recent Rise of Prices in India*, Mr. K. L. Dutta thus speaks of the Export Duties on Food Stuffs. "A study of these figures shows that the percentage of exports to the total production is ordinarily very small, and that in years of famine, it dwindles to a still smaller figure indeed. Thus in 1897-8 it was ·86%; in 1900-01, ·89%, and in 1908-9, 1.1%; while in exceptionally favourable years it does not rise much above 4 p. c. In 1891-2 it was only 3·7, in 1904-5, 4·5, and in 1911-12, 4.4. It was only in two years out of the long period from 1891-2 to 1911-12 that the food supply in India proper actually fell short of requirements, and had to be supplemented by importing more from outside than was exported out of the country. This was probably the effect of the export of a considerable quantity of the finer kinds of food-grains to the immense benefit of the producers, while the requirements of those, who could not afford the finer stuff, were met in their interests by the importation of cheaper kinds of grain from Burma and other countries".

‡ On this point Cp. the present writer's *Sixty Years of Indian Finance*, Section III Ch. III on Land Revenue.

§ At The Present time only about ¼ of the total area of India is under cultivation; but that does not mean that there is room for expanding agriculture to ¾ of the present area. The cultivable waste land other than fallow is returned at 114 million acres as against 212 million acres in cultivation. This limits the maximum possibility of agricultural expansion to 50% of the present area.

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* The following is one of innumerable instances that could be given to show the wofully uneconomic character of the average agricultural holding in India. Says the Settlement Officer of the Bhusaval Taluka in East Khandesh District, in his Report on the 2nd Revision settlement of that Taluka (Records of the Bombay Government No. DXCI Series 1922) para 18:—

"Some remarks are required as regards the comparative size of holdings. The following table gives the information in summary form. Each holding enumerated is made up of *all the lands* held on occupancy rights by one man, however they may be distributed in different villages.

No. of holdings of acres:—

1-5	5,207
5-15	7,491
15-25	2,614
25-100	1,775
100-500	123
Over 500	6

A holding paying an assessment of Rs. 25 may be regarded as an economic holding. The average assessment of the whole area under the existing settlement is Rs. 1-7-10. *It may therefore be assumed that an average holding of 17 acres is economic*". On this official declaration, which by no means errs on the side of taking too liberal a view of the economic holding, which, moreover, considers all land held by one man in a village, no matter how scattered these may be, to constitute one compact holding, out of the total number of holdings of 17216, nearly 75 p. c. or 12,968 are below the margin of cultivation, below what is officially admitted to be economic cultivation! And this is the common feature throughout all India.

much in the interests of the cultivators as in those of the Government.* For the latter can never safely rid themselves of that standing criticism against their whole financial system, which, while it recognises a subsistence minimum as being exempt from taxation in the case of the Income-Tax, allows no such exemption in that other and still more important form of direct taxation in India—the Land Revenue. If the principle of exemption of subsistence minimum is admitted in that case under present circumstances, practically the whole of the present revenue from land—at least in the Ryotwari provinces,—would have to be sacrificed at one stroke.

But even if the irrigation facilities are so fully extended as to permit of an intensive cultivation of all the present most profitable crops starved by the want of adequate water-supply; even if land-holding is regrouped so as to create decent-sized economic holdings capable of employing advantageously all the mechanical and chemical devices which contribute to increase the yield in other countries and diversify the produce; even if all the available land for cultivation not yet cultivated is brought under the plough, it does not necessarily follow that the export trade would automatically and proportionally benefit. The improvements in agriculture, outlined above, are needed for our own industrial equipment and economic betterment. We cannot regard the standard of life which allows only one meal a day, and that of the scantiest and the coarsest, to two-thirds of our population as at all civilised or even barely human. We cannot delight in extending sugar and wheat and cotton cultivation if the whole or large portion of these crops is to be exported to the prejudice of the physique of our people and the success of our industry. If industry in India develops in a manner and at a rate which we have instanced above, the pressure on the soil would be automatically relieved. Simultaneously, however, a home demand would be created for agricultural produce which would consume the entire and increased domestic supply of these materials. † And this would be 'quite independent of any policy of export restriction in the interest of the conservation of the nation's food-supply, a policy which is of frequent necessity so long as India is periodically exposed to the scourge of famine, and which may be quite justly systematised without undue hardships to the agricultural interest, though the following counterplea is worth some notice.

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* Cp. *Sixty Years of Indian Finance* by the present writer, Section III ch. III seq.

† Says the *Fiscal Commission*:—

"A number of witnesses have advocated the imposition of export duties or other methods of restriction on the export of food grains to conserve the food-supply of the country. An attempt is usually made to support by statistics the assertion that India's production of food is insufficient to feed her population. Calculations are made of the total food production in India: an average ration is assumed which is suitable to provide the whole population with what is regarded as a sufficiency of food; and it is then shown that the food production of India is not adequate to provide the required ration. But the subject is not really susceptible of treatment in this manner." (Para 199). The Commission, apparently, does not believe in a minimum standard of the *Human Needs of Labour* (Rowntree). They reduce the problem merely to one of prices and poverty. "It is not really the insufficiency of the total food-supply so much as the fact that certain classes of the population are too poor to buy all the food they require" (para 200). And so they have no hesitation to recommend a small revenue duty on rice export, but desire to keep the wheat export free from duty!

> "We have to see, therefore, what would be the effect on India generally of an artificial reduction in the price of food grains. If the policy is successful, it is clear that it would involve a considerable diminution in the resources of the agriculturists It was assumed by Mr. K. L. Dutta, in his "Report on the inquiry into the Rise of Prices in India" that two-thirds of the supply of food grains is consumed by the agriculturists and one-third is sold. The total average crop of wheat at present is 9,300,000 tons, of which on this assumption 3,100,000 tons would be sold. If the price of wheat were artificially depressed by Rs. 2 a maund, the money loss to be shared amongst cultivators, landlords, middle-men and money-lenders connected with agriculture would be over 16 crores of rupees annually"*

Personally I am not impressed with this argument, which, to be formidable, has to assume a rather disproportionately heavy depression by export duty. It assumes all that is *sold* to be identical with all that is *exported*—an obviously absurd assumption. It also overlooks the possibility that the hardship to the agricultural classes may be removed, if the duty on export is made to come into operation only after a certain level of price is reached. In any case, I feel convinced that the extension and improvement of agriculture in India, as recommended above, would benefit the export trade in food-stuffs, if at all it does so, only temporarily, provided, of course, the industry in India is so diversified and conditions of employment so far improved as to improve the purchasing power of the people of the country themselves, and thereby increase the domestic demand to a pitch when there would be little or no surplus left of the food-grains for export.

XLIX. EXPORT OF RAW MATERIALS.

Next after the food-grains, the export of raw materials of Industry, also obtainable from agriculture, is the most important item in the exports schedule of India. The four following articles account for Rs. 99.32 crores of export, or 40 per cent. of the total export trade.

		(in crores)
Cotton (Raw)	... ...	Rs. 53.97
Jute ,,	... ...	,, 14.05
Oil Seeds ,,	... ...	,, 17.40
Hides, Skins & Leather	... ...	,, 13.90
		99.32

In discussing the Import of cotton manufactures we have already pointed out the legitimate goal of Indian development in respect of cotton industry as aiming at manufacturing the whole of the Indian production in India itself. So long as India imports cotton goods worth between 50 and 60 crores per annum, the export of any raw cotton from India cannot legitimately be described as a real surplus. It is true, indeed, that the raw cotton worth 40 odd crores would be made up into finished goods worth ever so much more,—100 crores at least; and that India's need of cotton goods being represented by the 50 or 60 crores of imports, we may take it that the total value of the Indian cotton manufactures, supposing this country manufactured the whole of her own raw material, would exceed by 50 p. c. her own requirements. It would obviously be more profitable for India to export the finished goods rather than the raw material; and if that export interferes with the prior claims in the world markets of other manufacturers, the only likely consequence would be a fall in prices, or a boon to the world consumer. With such a prospective benefit to the consumer at large, we cannot see why the seemingly more ambitious, alternative, goal of the Indian consumer could be illegitimate or objectionable. While, in all probability, for political as well as economic reasons considered, it is likely that the export of raw cotton would not be interfered with by fiscal measures, however desirable such measures may seem to be on exclusively economic grounds of an intensive industrial development, the belief may be expressed that the growing consciousness of the claims of industrial India would prevent the export trade in this branch from growing in future, if, indeed, it does not materially decline. Its place may, to some extent, be taken by the export of corresponding manufactures, though it may be doubted if the value of exported manufactures of India in near future would ever be quite so considerable.

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* (Indian Fiscal Commission, Majority Report, para 201.)

(A) JUTE.

The exports of raw jute evince enormous fluctuations. They were valued at Rs. 22.20 crores in pre-war average, and rose to 24.70 crores in 1919-20, but fell again to Rs. 14.65 crores in 1921-22. Jute is a practical, if not an absolute, monopoly of India; and it is accordingly surprising why the jute industry, which has made commendable progress, should not be absorbing the whole of the raw material produced in the country. It may be noted that the world demand of jute is based on its being the cheapest fibre available for bagging agricultural produce. Its consumption in any one year depends on the sum total of the agricultural crops of the world in that year and the proportion of these crops which are consumed in areas outside the region of production. The gradual growth of the bulk-handling of wheat and other grains is, to some extent, reducing the annual demand for jute; but there are various difficulties connected with bulk-handling which have upto the present time prevented its wide extension. * Quantitatively considered, the jute exports have fallen steadily from the pre-war average; and the whole of the fall is not accounted for by the growth in the exports of jute manufactures. The area under jute cultivation has contracted owing to the necessity of obtaining greater quantities of food-crops; while the curtailment of the demand from the continental nations, who are unable to buy

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* See the *Annual Review of the Trade of India*, 1921-22, p. 18.

their food-grains, may also account for the decline in the export of raw jute. We shall however consider this subject more fully when we come to study the export of jute manufactures.

(B) OILSEEDS.

Reference has already been made, while dealing with the Imports schedule, to the practical monopoly which India enjoys in the production of some of these seeds, as also to the possibility of manufacturing the oils in question within India herself. I do not hold with the Indian Fiscal Commission that a tariff manipulation designed to protect the oil industry of India, and secure it an abundant supply of the raw material, would so alter the conditions of production as to seriously infringe upon the Indian monopoly. Tariff manipulation as regards exports would, no doubt, have to consider the interests of the agricultural producer, which would seem to be at variance with those of the manufacturing producer. The cheapness of raw material desired by the oil-manufacturer need not, however, be purchased by such a restriction or penalising of exports as would involve a needless sacrifice upon the agriculturist. But, while reserving the detailed consideration of this question to the section of this work dealing with Tariffs, we must observe here that tariff manipulation within the limits of the differences in comparative costs would not force the growth of rival production or substitute creations. The advance in science is, indeed, independent of such clumsy devices of national protection as the tariff manipulation affords. There are instances on record of natural monopolies of a country being subverted by such advances in human knowledge, quite apart from the adjustment of fiscal protection. The indigo monopoly of India and its dye industry afford an instance in point, when we view it in conjunction with the modern German dye industry. * In any case, whether or not active steps are taken to prevent the drain of our oil-seeds to the serious prejudice of a corresponding oil-pressing industry in India, there can be no objection to the suggestion for a more intense policy of actively developing the Indian oil industry. Oil expression in an economic and profitable manner would, indeed, require large scale operations with modern machinery and equipment. And a successful manipulation of a first rate modern oil-pressing establishment would presuppose regular and plentiful supplies from seed-fields, that are to-day too small individually to guarantee such a regularity and plenitude of supplies. Though not quite to the same extent as in the

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* Cp *Indian Fiscal Commission*, (Majority Report) para 194.

"This proposal like all other proposals for protective export duties is inconsistent with our general principles. In the case of oil-seeds we consider that such a duty would be particularly disadvantageous to the country. Certain oil-seeds are grown very largely for the export trade. The Indian demand for the oil and the cake would be quite insufficient to absorb the whole product, if all Indian oil-seeds were crushed in the country. At the same time there are considerable difficulties in exporting oil; and it is unlikely that any appreciable export trade in oil could be built up." But, see para 174 of the same Report, which classes oil-seeds among the monopolies of India, and para 173 which, permits export duties on monopolies.

case of sugar, the smallness of agricultural holdings in India constitute the most effective obstacle in the way of an intense and rapid industrialisation of India. If that obstacle is to be removed, the policy governing the Indian Land Revenue and Land Tenure systems would have to be radically revised. The trade and industrial needs of India make it impossible for us to tolerate any longer uneconomic agricultural holdings, and the sooner a revision is undertaken the better. An oil industry developed on these lines, with its success assured as far as possible by adequate attention being paid in advance to equipment as well as raw material, would of course produce much more than we would need for our own internal consumption. But here, I think, is an instance where India might legitimately aspire to the wider and seemingly more ambitious of the alternative aims of industrialisation; the manufacture within her frontiers of the whole of her own raw material, and a share, if possible, in the export trade of the world in the manufactured articles, in preference to aiming at simply supplying by Indian manufacture the domestic demand of India for the finished goods.

(C) HIDES, SKINS AND LEATHER.

The exports of these materials were, until quite recently, in very considerable quantities, and were balanced in value by the finished leather goods of all kinds from shoes to saddlery. The fact, however, that the export of Indian hides was, before the war, almost wholly in the hands of German firms, led, under the stimulus of the war-hate, to devise measures for the improvement of the tanning industry in this country. India enjoys exceptional facilities for the development of a large-scale leather industry. She has a plentiful supply of raw material; though she lacks for the moment a knowledge of the most up-to-date and economic processes for converting that raw material into the required finished goods.* She commands almost a monopoly of the principal tanning materials, though

> "chrome tanning has so far made comparatively little headway in India, chiefly owing to the fact that its processes are highly technical, requiring chemical knowledge and an elaborate equipment of machinery."†

A beginning has also been made in regard to modernised industry for leather manufacture, at first under the aegis and with the help of the military department; but now sustained very largely by the general public demand for leather goods. India, finally, has an extensive and elastic market of her own for all kinds of leather goods, which may well be supplied by her own industry in that behalf. It may be, though I do not think it need be, a fact of our future industrial history that

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* Said the *Industrial Commission* "The village tanner finds that the continued rise in prices is placing local hides to an increasing extent beyond his reach. His methods are in any case extremely inefficient; he has justly been described as making a good hide into bad leather; and there seems little hope that his industry can or will ever deserve to be saved. × × The principal difficulty at present is the lack of organisation and expert skill." (para 53.)

† Op. cit. Loc. cit.

> " It will be impossible for India to tan all her own hides for some time to come."*

It may be, though I do not think it is likely to be, true.

> "That India will, for an even longer time, be unable to consume all the leather that will be produced by an extension of the industry on a scale sufficiently large to withstand the competition of exporters of hide, while tariff bars against the importation of leather exist in many foreign countries which admit hides freely." †

But, in any case, here is an example in which the interest of the exporter ought not to be suffered to negative any measures that would guarantee a rapid development of the leather industry. Exports of hides may be taxed under Customs to secure a full supply to the growing local industry. Such a penalty on the exporter would be only a tax on the middleman's profits, not a hardship upon the producer of the material, as an analogous duty on the export of oil-seeds might quite conceivably be. For hide production is an incident—not an aim—of the agricultural organisation and life in India; and taxation of such an incident in the interests of a promising local industry cannot reasonably be objected to.‡

(D) FOREST PRODUCE.

This brief review of the main articles of export from India consisting of raw materials for industry would be incomplete without a reference to the forests products of India. The view-point of measuring the real utilities of the forests in a country has appreciably altered in the last generation. They are not merely a remote factor affecting the climate. They are more properly regarded as the storehouse of considerable national wealth, that, to be useful, needs only to be exploited. The forests of India cover over a quarter of million square miles in area, but only 60,000 sq. miles are at all brought under some sort of a scientific management. They produce only about 340 million cubic feet of timber,

> "while at least 1,200,000,000 could be harvested; thus an increment of 855 million cubic feet is being carried annually; and taking 80 years as the average rotation, 105 million cubic feet represent the loss by natural wastage and decay annually." §

They produce bamboos and savannah grass sufficient to meet all the present needs of India in respect of paper and paste-board now imported to the tune of some 5 crores per annum.[*] In the United Provinces at least the industrial possibilities of Forests have been demonstrated in the case of resin and terpentine production beyond the possibility of a doubt, and to a degree when it could reasonably be stated to be

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* Op. cit. para. 54.

† Ibid. See also Appendix D to that Report, analysing in detail the conditions governing tanning industry and leather manufacture in India and making definite proposals for the same.

‡ See however the *Report* of the *Indian Fiscal Commission*, paras 190-193: " If the tanning industry requires protection this should be given by an import, and not by an export, duty." Why not both combined? The Commission's reasoning is characteristically muddled, and inconsistent.

§ *Statement of Forest Conditions in British India*, p. 21.

> "in a position to meet not merely the whole of the country's requirements, but, in addition, those of other Eastern countries." [†]

The lac monopoly, and the sandal-wood wealth, though demonstrated to be commercial successes by actual and sustained ventures, are not yet exploited to the degree justified by the real accumulation of that wealth. Caoutchouc and myrabolans, though figuring substantially in our exports schedule, are still capable of further development which our forest administration has yet to realise. [‡] Altogether, after five years of that Report, I feel still inclined to repeat the criticism of the Indian Industrial Commission of 1916–18:—

> "As the above figures will have shown, the national forest estate is of vast extent and value; but a scrutiny of the out-put per square mile proves that its actual yield has hitherto lagged far behind its possibilities, and is, in most areas, greatly in defect of what the natural increment must be. The chief needs of the Forest Department are undoubtedly the development of transport facilities; the exploitation of the forests on more commercial lines; and the extension of research and experimental work which should, when necessary, be carried out on a larger scale and under commercial conditions" (para 61).

L. EXPORT OF MANUFACTURED GOODS.

This section is comparatively the smallest in the schedule of Indian exports. The two principal manufactures exported from India–cotton and jute—show the following position:—

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[*] *India in* 1921–22 by Rushbrook Williams, pp. 173 et. seq.

[†] Ibid. cp. also my *Sixty Years of Indian Finance*, p. 589.

[‡] I am not able quite to approve of the policy, advocated in the United Provinces, of making over such forest industries, when they are proved to be commercial successes after all the expense in pioneering them incurred by the Government, to private enterprise. The Mysore practice in regard to the state monopoly in sandal-wood oil is much better. It is not merely the fanaticism of a socialist, but the business instincts of a financier, that would warn provincial governments now in charge of our forest wealth against an undue extension of private enterprise.

[§] In the official trade statistics, the third main division in the export schedule, classed as *articles wholly and mainly manufactured*, includes the following :—

- Yarns & Textile Fabrics.
  - Jute.
  - Cotton.
  - Wool.
  - Silk.
  - Others.
- Hides & skins (Tanned) and Leather.
- Chemicals, drugs, medicines.
- Dyes and colours.
- Metals other than iron & steel.
- Iron and Steel goods.
- Apparel
- Cutlery, hardware implements & instruments
- Paper, pasteboard and stationery
- Furniture, cabinet-ware and wood manufactures
- Railway plant & rolling stock.
- Glass-ware & earthen-ware
- Machinery of all kinds including belting.
- Carriages and carts, including cycles and motor-cars.
- Miscellaneous.

But of a total in that group of 51·88 crores in pre-war average 31·65 crores was represented by cotton and jute manufactures alone while, in wartime the figures were 69·39 against 57·29 respectively. We have not thus ignored the other manufactures unjustly, not to mention the fact that some of them have been incidentally discussed in other connection.

(Figures are in thousands of Rupees)

	Pre-War Average.	War Average.	1919-20	1920-21	1921-22
Cotton Manufactures—					
Piece-goods :					
Grey	73,84	1,48,11	2,95,90	2,21,80	98,59
Coloured...	1,33,37	2,70,41	5,68,54	5,17,88	6,43,80
Twist and yarn	9,13,45	7,18,93	18,25,92	10,17,15	7,71,46
Others	19,87	29,26	50,97	70,30	51,22
Total ...	11,40,53	11,66,71	27,41,33	18,27,13	15,65,07
Jute Manufactures—					
Gunny bags :					
Hessians ...	9,39,10	6,79,99	3,16,11	5,11,64	2,20,08
Sacking... ...		14,24,99	15,41,68	18,79,29	11,71,65
Gunny cloth—					
Hessians ...	10,75,75	23,68,14	29,89,58	27,67,71	15,46,59
Sacking... ...		60,68	1,25,23	86,15	46,39
Rope and Twine	9,62	19,65	16,66	17,25	9,71
Other sorts	40	8,93	12,28	37,42	5,15
Total ...	20,24,87	45,62,38	50,01,54	52,99,46	29,99,57
Grand Total...	31,65,40	57,29,09	77,42,87	71,26,59	45,64,64

Of the ten principal articles of export selected above this makes a pre-war proportion of 15 p. c., war proportion of 22½ p. c., and the latest proportion of 21 p. c. Taking these two groups of our principal manufactures exported seriatime, we find

(A) COTTON YARN AND PIECE-GOODS

showing remarkable fluctuations in the export figure. The Indian production of both yarn and piece-goods has grown, as is shown by the following quantitative figures; and though the Indian exports include also the re-exports of foreign goods, imported into this country. in the first instance, the exports of cotton yarn at least have fallen very sharply.. The principal market for the Indian yarn is China. Formerly Indian yarn had to compete in China mainly with the Japanese yarn; but the striking expansion in recent years of the Chinese spinning industry has changed the character of the competition. Japan now ships practically nothing but 16 counts and upwards, while India specialises in counts 14 and below. In these the local competition is beginning to assert itself, with its undeniable

	1913-14	1921-22
Yarn lbs.	683,000,000	692,000,000.
Cloth. yds.	1,164,300,000	1731,600,000

advantages of locally grown cotton, less expensive labour and proximity to the market. Exports of higher counts from India, would not now pay in the Chinese market in face of the competition of the British and Japanese imports. The Chinese cotton industry was reported at the end of 1921–22 to possess 109 modern mills, with 2,900,000 spindles and 13600 looms.* No wonder then that the yarn exports have fallen from the average of 200,970,000 lbs. in 1912 to 81,033,000 lbs. in 1921–22. But while India has a considerable domestic market of her own she need not be afraid of overproduction in the spinning industry.

In the case of cotton piece-goods, the following table shows a fair increase in the export of Indian made goods, though the import of foreign goods continuing at a still larger figure, the export cannot afford the same encouragement as it otherwise might be made to do. †

Figures are in million yards.

		1913-14	1918-19	1919-20	1920-21	1921-22
Indian mill produce	... ...	1164.3	1450.7	1640.0	1580.8	1731.6
Imported goods ...	... ...	3197.1	1122.0	1080.7	1509.7	1089.8
	Total ...	4361.4	2572.7	2720.7	3090.5	2821.4
Exported: Indian	... ...	89.2	149.1	196.6	146.4	161.0
Foreign	... ...	62.1	114.2	88.6	61.0	73.6
	Total ...	151.3	263.3	285.2	207.4	234.4
Balance for home	...	**420.1**	**2309.4**	**2435.5**	**2883.1**	**2586.1**

The Indian cotton industry cannot reasonably be said to have reached the legitimate limit of its expansion while at least 40 p. c. and more of the cloth consumed in the country is imported from abroad. As, however, we have said enough on this subject in the previous chapter we shall say no more in this place.

(B) JUTE MANUFACTURES.

In spite of the magnitude of Jute exports, both raw and manufactured, that industry is relatively a new one in this country.

> "The first jute mill in Bengal was started at Rishra in 1855 and the first power loom was introduced in 1859. The original out-turn was 8 tons,

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*See the *Annual Review of the Trade of India in* 1921-22 p. 16 and tables 33 A and B.

† Ibid. p. 17.

per day. In 1909 it had grown to 2500 tons per day, it is now 4000 tons per day, and it shows every indication of growing and expanding year by year."*

Beginning with such slender foundations, the jute industry, monopolised almost wholly by Scotsmen from Dundee, now comprises (1920-21) 77 mills, with a capital 19.23 crores of rupees, 41,600 looms, 869,900 spindles, and employing 288,400 operatives. An area of 1½ million acres in round figures produces on an average 40 lakhs of bales, of which a steadily diminishing quantity is exported in the raw state. † Though in the latest years the production of raw jute has fallen from the 1914 record of over a crore of bales to 40 lakhs, exports of raw jute have fallen still more considerably in that the fall is steady and regular. On the other hand the exports of jute manufactures have been steadily increasing, though, the heavy fall in prices effectively conceals that increase. The total exports of gunny bags for 1921-22 were 27 p. c. less in number and 42 p. c. less in value than 1920-21, but were 14 p. c. greater than the pre-war average in number, and 48 p. c. higher in value. The further expansion of this industry may, thus, take place only on lines which would enable the establishments in India to consume the whole of the raw produce of jute in India. The unfortunate fact of an historical accident, by which the whole of this industry is kept as a strict and close monopoly of the foreign element in India, has prevented that attention being paid to its expansion and development, which is its due in view of the value of its exports. ‡ The Indian share in this industry is confined to the lowest class of factory labour,§ thereby offering a marked contrast to the organisation and management of cotton industry on the other side of the Indian continent. While, it is true, the relations of

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[*] Cp. *The Indian Year Book* for 1923, p. 344 edited by Sir. Stanley Reed. See also Mr. David Wallace's work on "*The Romance of Jute*" for a history of the development of that industry.

[†] The following table makes interesting reading.

	Raw Jute Total Produce.	Indian Consumption.	Exports.
1912-13	98	46	50
1913-14	89	45	43
1914-15	104	49	30
1915-16	73	58	32
1916-17	83	57	28
1917-18	89	54	18
1918-19	70	51	22
1919-20	85	52	34
1920-21	59	56	23
1921-22	40	44	30

The figures are in lakhs of bales.

[‡] "Including India's internal consumption of jute manufactures, the annual average value of the jute trade to Bengal has been computed at 60 crores of rupees". *Indian Industrial Commission Report*, para 14.

[§] "It is a noteworthy fact that Bengali, or indeed Indian, capitalists have taken very little part, otherwise than as mere investors, in the starting, and none at all in the management of the jute mills." Op. cit. para 16.

the European jute manufacturers with their employees in the mills are not characterised by that systematic brutality and a thorough disregard of the most elementary rights of human beings, which confer an unenviable distinction on the relations between the European or half-breed tea-planters and their labourers, the fact of jute mill operatives, having to work 15 hours a day in the mills at starvation wages is an eloquent testimony to the conditions of labour vs. capital in this industry.* Indian opinion is thus naturally indisposed to press the claims of jute industry for the maximum of its possible expansion; and the consciousness of a practical monopoly, combined with the financial exigencies of Government often leads to a treatment of the industry in fiscal adjustments, which may not always be in the best interests of national economy. One obvious consequence of such a short-sighted but rigorous policy of exclusiveness by the foreign element is the enormous variation in the area under cultivation, and the consequent fluctuation in the supply of the raw material. The area varied from the maximum of 3,264,000 acres on an average between 1905–6 and 1909–10 to 1,518,000 in 1921–22, while the crop varied from the maximum of 9,069,000 bales on an average in the period between 1910–11 to 1914–15 to 3,985,000 bales in 1921–22† Such an uncertainty of output necessarily affects the price of the raw material, and, therefore, of the finished product to an extent that is bound to be unduly speculative; and so to be utterly inconsistent with the dignity or even safety of a first class, well organised, and settled industry. It is a highly regrettable feature of both the leading industries of India that the raw material for each of

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* "With the introduction of electric light in the mills in 1896, the working day was increased to 15 hours, Saturday included, which involved an additional amount of cleaning and repairing work on Sundays. In order to minimise the Sunday work, and to give them a free Sunday an agitation was got up in 1897 by the mill European assistants to have the engines stopped at 2 or 3 p.m on Saturdays. The Local Government took the matter up, but their action went no further than applying moral suasion, backed by a somewhat half-hearted threat. The Mill Association held meetings to consider the question and the members were practically agreed as to the utility of early closing on Saturdays but, more suo, could not trust themselves to carry it out without legislation. Unfortunately, the Government of India refused to sanction the passing of a resolution by the Provincial Government under the Factory Act, and the matter was dropped" *Indian Year Book*, 1923 p. 347. Does this imply that even now, in spite of the Indian Factory Act limiting the maximum working day to 10 hours, the jute mills work 15 hours a day? The following comparative wage figures are taken from the Indian Industrial Commission Report, para 15 and 21.

Wages per month in Rs. a. p.

Jute mills Calcutta.		Cotton mills Bombay.	
Carders	9	Drawer	23—6
Rovers	12	Ruler	17—4
Spinners	14-12	Warper	40—8
Shifters	11	Rover	24—1
Winders	18	Doffer	12-10
Beamers	22	Weaver	46-15
Weavers	27		
Mistries	30		
Coolies	13		

† See the *Estimates of Area and Yield of Principal Crops in India* 1921-22 No. 1736 of the Commercial Intelligence Department of the Government of India.

them, available in such plenitude within the frontiers of India, is still exposed to so much uncertainty in yield or value, quite apart from extraordinary circumstances such as those caused by the War. These crops are no doubt, commercial crops, and have to compete in both area and yield with food crops. Famines and relative values may certainly explain a degree of variation in yield, but not to the extent of a 60 p. c. margin in a period of less than 15 years. The jute industry is more concentrated than cotton. If those primarily interested in it as an industry could only agree among themselves, the evolution of rules regularising the crop and its prices would not be altogether impossible.[*] Such an agreement is, indeed, fraught with the danger of creating a virtual, if not complete, monopoly by a sort of a Jute trust corresponding to similar organisations in America and Germany. But I am, for my part, inclined to think that the traditional predilections of English economists have made them exaggerate unduly the hardships of a trust or cartell to rival producers and to the consumer, underrating at the same time the dictating force of real economy in the largest possible scale of operating an industry, and thereby reducing prices and improving production.[†] It is, of course, not to the monopolist's interest to effect the greatest quantity of sale so much as to make the highest profit he can from the greatest price the consumer can be made to pay. But on the one hand the limit of the consumer's ability to pay the price, which, in its turn, is materially influenced by the possibility of cheaper substitutes, and on the other the risk of provoking the antagonism of the community, which might take the shape of sharp increase in taxation, even if it falls short of a complete confiscation and expropriation of the private entrepreneur, will effectually limit the degree of tyranny that the most completely consolidated trust can inflict upon the consuming public. The jute industry in India can be cited to illustrate every one of the points made above. It has an association of its own, which lacking the solidarity of a syndicated enterprise of the German kind, is yet capable of working up to a distinct class sentiment, which may quite possibly create a jute trust.[‡] It enjoys a natural monopoly of raw material, which always creates the temptation to push up the price limit to the maximum, and equally always threatens them with the possibility of cheap effective substitutes being placed on the market. Leaving aside the danger of substitutes manufactured in other countries, it may be noted that experiments have been made in recent years by the Indian agricultural department with the *Deccan Hemp Plant*, which yields a fibre, similar to jute. A number of estates in Bihar seem to have taken up the cultivation of type 3 of that plant. A sample of the fibre prepared from this variety by the usual methods of retting was 10 to 12 feet long, of an exceptionally light colour, well-cleaned and of good strength. It was however valued at £ 18 per ton as against Bimlipatam jute at £ 12½ per ton, and Bengal first mark jute at £ 17 per ton.[*] The fibre has already been used in Bombay and Madras for the manufacture of ropes and a coarser variety of sacking; and, it may be added, their fibre can be grown in parts of India not suitable for jute.[*] On the other hand, considered as a monopoly that could always exact its own price from the consumer, Government have usually not hesitated in taxing the jute export both raw and manufactured.[†] But the taxation in India in each instance has been a taxation exclusively for revenue purposes. Taxation as a means of social reform or economic redistribution has yet to be appreciated by the Government of India. On the whole, then, while we cannot consider that taxation has unduly hampered the progress of this industry, or that the chances of effective substitutes prevented its fuller organisation, we must recognise that the jute industry, in spite of the sovereign advantage it has which the cotton industry lacks, has yet not made the progress that could legitimately be expected of it; and that it would never rise to its fullest possible dimensions, while the uneconomic spirit of a close corporation continues to exclude Indians altogether from any connection with it.

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[*] "Only a year or two ago the Jute Mills Association in dispair brought out an American business expert to advise them on the possibility of forming a jute trust with a view to exercising some control over the production and price of jute. Mr. Parks came and wrote a report, which the Association promptly pigeonholed because the slump was over" *Indian Year Book* 1923 p. 347.

[†] Dr. Marshall in his volume on *Industry and Trade* may be regarded as an exception. See especially Bk. III ch. I.

[‡] The Jute as well as cotton industry of India can never develop that complete organisation which will include both vertical as well as horizontal combination in the industry, because the system of land-tenures in India will not allow it. There is, however, a greater possibility for such a combination in Bengal with its zemindari system and large holdings, than in Bombay; and so the Jute industry has a better chance of trustification than cotton.

LI. OPIUM.

Amongst the principal articles of export tabled above as making up nearly 80 p. c. of the total export trade of India, there is opium. As exported it must of course be regarded as a finished product. It is to-day only of trade importance, though in the past it has had a most chequered and romantic story of political and financial complications.[‡] India has sacrificed an excellent source of revenue for rather sentimental reasons of doubtful benefit to the Chinese people. Speaking of opium only as a commercial product, we find its trade importance to be much reduced in the course of the last ten years, owing, of course, largely to the fact that the article still continues to be under heavy restriction. But what has been India's loss has not certainly caused any gain to China, as it was intended to. For according to the disclosures before a special Committee of the League of Nations in 1922, as well as according to the latest disclosures, the poppy cultivation in China, instead of being destroyed, is, if anything, very much on the increase, and the opium habit very much in the ascendancy. I would not suggest that India has no concern how China suffers, provided her own trade and finances prosper. I would not even imply that it is no part of India's duty to take active steps in aid of China, if the Government of the latter country decides upon stamping out this injurious habit in China. But if India learns that the Chinese Government is unequal or indifferent to stamping out this habit, it is at least a matter for serious reflection whether we in this country are not incurring a needless sacrifice in restricting poppy cultivation, and thereby confining unduly an important branch of drug manufacture in this country.

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[*] Cp. *The Indian Year Book* for 1923 p 347-8.

[†] Cp. Dr. Marshall's dictum op. cit. p. 405 foot-note.

"As the monopolist will in his own interest be inclined to things that conform to Increasing Return by low charges, in order that he may increase their consumption and gain the economics of production on a large scale, so it is a general rule that, other things being the same, the Finance Minister should press on products of Decreasing Return industries, rather than on products of Increasing Return industries". By such a rule the taxation of raw jute ought to be preferred to that of the finished product.

[‡] It is noteworthy that opium also, like cotton and jute, was the subject of very intense speculation; and that despite the fact of a complete Government monopoly from A to Z in its production. Cp. *Sixty Years of Indian Finance* by the present writer.

LII. GENERAL CONCLUSION.

On the whole, then, it seems to me that **the present predominance of exports over imports does not represent a real, legitimate, permanent surplus of our produce** which we might well export with benefit to ourselves and our customers. The large exports of food-stuffs represent, not a genuine surplus of production, but a deliberate restriction of the standard of life and the minimum of subsistence allowable to human beings, which compels resort by the local population to under consumption, or of less nutritive stuffs, in order to provide a surplus for exchanging with cash to pay the Government dues. A growth of industries of the type hoped for in these pages is not only bound to redistribute population as between agriculture and industry, incidentally relieving the present disproportionate pressure on the soil; but, by improving the money incomes of the industrial population, so increase the demand for more extensive and nutritive consumption of food-stuffs that the seeming surplus of to-day would vanish altogether. The same series of influences will bring about an identical result in the case of the exports of raw material. The more fully developed local industry would want all the raw material available for it at home. With these two important sections of the trade of India knocked out, on the assumption that Indian economic evolution takes place on the lines sketched out here, it may be questioned if the trade balance would at all take place. For while the imports of India from abroad may diminish, *pari passu* with the development of the local industry, in the section dealing with manufactured goods, there would still be some imports, like machinery, implements, hardware, &c., which do not seem to be likely for immediate production in this country. It is possible that the exports schedule may show an increase in manufactured articles. But this could not and should not be striven for as a set purpose of our national development for economic and political reasons. And, in any case, it could never fill up the gap—if one is made,—occasioned by the fall off in the exports of food-stuffs and raw materials. Jute, oils, hides and skins or dressed leather are the only articles of which we might be said to have a real surplus. Cotton goods, rice, raw cotton, and even sugar may continue to figure in our exports schedule, without harming the internal standard of living. But it is a question for the future to decide if, when such changes have been accomplished, the trade of India would balance.

Chapter V

INTENSIVE INDUSTRIALISATION IN INDIA.

LIII. POSSIBILITIES OF INTENSIVE INDUSTRIALISATION.

The preceding review and analysis of the trade of India would have convinced the student of this work that, all the important pre-requisites of industrialisation obtain in this country. If India is still backward, that could only be explained by the absence of an active policy of intense industrialism, which the Government of India, for reasons of their own, have shown themselves unwilling to adopt. We shall discuss more fully this aspect of the case in the section dealing with the Tariffs in India. Here we must observe, however, that while we consider the intensification and modernisation of industry in India to be productive on the whole of benefits to the country, we cannot be altogether blind to the hardships or evils connected with industrialism of the type now so common in the west. It is, indeed, the fond hope of every reasonable nationalist in a backward country that he would profit by the lessons of other countries, and avoid or minimise, in his own case the evils of an industrial transition that have been witnessed in other countries. There is nothing inherently impossible in such a hope; though, it must be confessed, the economic history of the last half a century in the two most successful examples of rapid industrialisation by nationalist exertions—Germany and Japan—the hope does not appear to have been realised. * In America the mere vastness of the country permitted an industrial revolution to be accomplished, without the evils of the transition being made too painfully prominent, † quite apart from that sentiment of invincible buoyancy, which makes every cow-boy feel himself, not only the theoretical equal, but the potential reproduction of A Morgan. And, besides, the population in America was too sparse

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[*] The impression left on the mind of economic students familiar only with the English language is more vivid about the evils of industrialism in Germany than in Japan. Whether one reads the works of W. H. Dawson, Dr. Shadwell, Mr. Barker or any other of that ilk, the conclusion would be irresistible that the story of German industrialisation is not one continuous record of gains only. I think the explanation might be sought in the keener and more palpable sense of rivalry which the rapid development of Germany forced upon English writers, who are unconsciously making out a case for or aginst the policy prevailing in England, all the time that they are ostensibly studying the conditions in Germany alone. Besides, the essentially more philosophical bent of the German mind inclined the German writers themselves quite early in the transition to seize upon and expose the unsavoury features of nineteenth century industrialism. A Karl Marx could only be a German; though J. S Mill, an English contemporary, was not less logical or even erudite. In Japan, on the other hand, conditions are too far removed to cause an acute sense of rivalry as yet among the European savants, though class consciousness seems not to be utterly unknown even in the Land of the Rising Sun. Since 1922 Government in Japan has distinctly undergone a change inclined to favour the proletariat.

[†] This does not mean that works like *the Jungle* of Mr. Upton Sinclair are without foundation in fact.

to make its pressure felt, a factor which explains also the relative freedom of France from perceiving too acutely the evils of industrialism. We in India cannot afford to ignore the warnings of so many countries; and cannot press on with intensive industrialisation without a thought for its possible evil consequences. An attempt is accordingly made below, at the cost, perhaps, of some repetition of the ground already covered, to anticipate the possible evils and suggest remedies accordingly.

LIV. RAW MATERIALS AND FOOD-SUPPLY.

As already pointed out, under existing conditions, India produces sufficient raw material for industry within her own frontiers to justify the ambition of considerable industrialisation, merely by aiming at manufacturing the whole of one's own raw material only. But will the development of industry conflict with the food supply of the country? The substitution of commercial crops for food-crops has already been noticed, if not quite unfavourably commented upon.* As yet the substitution has not gone to a dangerous limit; and all the improvements in the quality and quantity of the raw material for our industry that may reasonably be desired are capable of being accomplished by attention to agriculture alone, without any encroachment upon the area available for food-crops. Without considering the possibility of the area that might be added to the cultivable land in India by the extension of irrigation,† we may repeat here, what has already been pointed out before, that the regrouping of agricultural holdings would alone suffice to permit that extensive and economic cultivation, which would guarantee us all the increment in yield and improvment in quality that we may desire. Attention to scientific cultivation is another of such devices that has still to be tried in India. But when all possible improvements have been made in the methods, aids and holdings of cultivation; when all anticipable benefits have accrued, the problem of an industrialised country would not be over. It is a fact of modern economic life in India, that by far the greater portion of our population habitually lives under a minimum of decent human subsistence; and it is no good for interested bodies to attempt to brush aside such cruel facts.‡ As industrialism develops, that portion must steadily come up to claim and obtain a decent standard of human comfort. There can be no justification for an industrialisation which would starve out of efficiency, if not of existence, 90 per cent. of a country's population for the benefit of less than one per cent. the so-called captains of industry. And the injustice would be the grimmer, if, as is not unlikely to be the case in India, even that 1 per cent. is not national in that country. With a growing demand, then, for better and more plentiful food-supply on the part of our industrial population and its possible increase, we cannot be quite so dogmatic,—as the Fiscal Commission in its superior wisdom has been, by simply brushing aside the statistical data not squaring with its own preconceived notions,—as to hold that there is a real exportable surplus of food-stuffs in India even now. We hope, indeed, and believe that the improvements and extensions in agriculture we have elsewhere suggested would so add to the food-supply as to meet all our immediate deficit in that regard; and it may be that reclamation of land not yet available for cultivation may guarantee us against the probable deficit in the near future when our industries have grown to the stature we desire. But that belief cannot exonerate us from considering even now, if we would avoid in our country the repetition of some of the gravest evils of modern industrialism, the problem of maintaining an adequate proportion between the area devoted to food-crops and that to commercial crops.

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* See ante, the estimate of the wealth of India p. 120 et seq. Jute area is actually falling, while only the area under cotton shows a decisive increase in the 20 years of the present century.

† There are at present over 48 million acres under irrigation, nearly 20 million of which would not have been cultivated but for artificial water supply. Cp. the *Agricultural Statistics of British India*, Vol. I for 1921-22.

"Projects have also been submitted to the Secretary of State for sanction which, if constructed, would add another 4½ million acres; a total eventual area in British India of about 36 million acres is thus at present contemplated from works sanctioned or awaiting sanction, irrespective of the natural extension of existing areas and of new projects, of which several are under consideration, which may be put forward in future." See the *Triennial Review of Irrigation in India* 1918-1921. The chief works awaiting sanction are the Sukkur Barrage in Sind, the Satlej Valley project in the Punjab, and the Damodar Canal in Bengal. op. *The Indian Year Book*, 1923, p. 274 et. seq.

‡ Says the Fiscal Commission:

LV. CONCENTRATION OF POPULATION IN TOWNS.

Another problem of modern industrialism in European countries is the excessive concentration of population in towns, with its attendant evils of insanitation, demoralisation, and degeneration in physique if not mentality. The depopulation of the countryside has not occurred in India quite to an extent to be perceptible; but the concentration in towns has nevertheless commenced beyond the possibility of doubting. * The following figures for the dozen leading towns leave no room for doubt on this subject.

(continued from p. 176.)

"An attempt is usually made to support by statistics the assertion that India's production of food is insufficient to feed her population. Calculations are made of the total food production in India; an average ration is assumed which is suitable to provide the whole population with what is regarded as sufficiency of food, and it is then shown that the food production of India is not adequate to provide the required ration. But the subject is not really susceptible of treatment in this manner, in view of the conjectural nature of nearly all statistical bases." para 199 of the Majority Report. On this authority (?) the work of men like Dr. Bowley and Mr. Rowntree (*Human Needs of Labour*) is of no avail!

* "Only 9.5 per cent. of the population of India are found in towns, compared with 78.1 per cent in England and Wales, and 45.6 per cent. in Germany. Rather more than half the urban population of India is found in towns containing upward of 20,000 inhabitants." *Indian Year Book* p. 419 and the Census Report for 1911. The 1921 Census Report is not yet out (April 1923).

Name of Town	Population in 1921	1911	1901	1891
Calcutta †	903,173	896,067	847,796	682,305
Bombay	1,172,953	979,445	776,006	821,764
Madras	522,951	518,660	509,346	452,518
Poona	176,671	293,316	245,430	182,080
Lucknow	243,553	259,798	264,049	273,028
Lahore	279,558	228 687	202 964	176,854
Delhi . .	303,148	232,837	208,575	192,579
Ahmedabad	274,202	216,777	185,889	148,412
Benares	199,993	203,804	213,079	223,375
Cawnpore	213,044	178,557	202,797	194,048
Karachi	215,781	151,903	116,663	105,199

Because the population has on the whole been growing, the increase in the towns seems not to have been purchased at the cost of depopulating the country. It is, moreover, generally speaking true of the Indian urban population, that even in those cases in which it seems to have taken to industry, it is still not divorced from all its connection with agriculture. Agriculture still remains, with all its hardships or shortcomings, the honoured and ancient, because it is the ancestral, occupation of the peoples of India. Modern industry in large towns does, indeed, offer temptation in the shape of large money wages; and those that can do so avail themselves of this facility to eke out their scanty and heavily encumbered income from agriculture. But because the industrial population of India is not thoroughly urbanised yet, the problem of civic congestion is none the less acute already in India; all the more so as the bulk of the industrial population in towns is constantly migrating between town and country, and consequently unable to claim a permanent, fixed habitat in either. The careful planning out, in advance, of the accommodation for the various sections of population in a modern industrial city is yet a thing unknown in India.

Those primarily interested in the housing of the proletariat in large cities are either, like the municipalities, still unaware of their primary duties; or, like the large-employers, unwilling to build houses that might not find tenants if the rent is not charged on unremunerative lines; or, like the Government of Bombay, through their vast undertaking for the Development of Bombay unfamiliar with the A. B. C. of economic lay—out of a great industrial city, and unable to reconcile the financial with the larger civic requirements. The solution by a Government scheme of house-building on a large scale may be right in principle; though we should have thought the municipality would have been the more preferable agency. But in practice, at least, as it appears in Bombay to-day, it cannot but be condemned unreservedly, as bad in finance and worse in town-planning. The problems of sanitation, recreation, amusements, and communications are not merely side-issues—as they unfortunately seem to be regarded in this country—of the central question of excessive concentration of population. If, as we believe, industrialism in India will have to go much further and deeper if this country is at all to get her due in matters economic, the concentration of population in a few centres is bound to grow and become still more intense in the near future. The problems, therefore, of civic housing sanitation and communications,—to mention only the most urgent and obvious—would have to be thought out far more carefully than those responsible at present seem inclined to do.[*]

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† Figures of Calcutta do not include the population of Howrah or the other suburbs.

LVI. CLASS—CONFLICT.

In the above review of the probable evils of too rapid an industrialism in India, we have deliberately omitted to give pride of place to the growing sense of proletarian solidarity, and its consequence, the class conflict, which is so prominent a feature of western industrialism. Class consciousness originates from the undue and excessive concentration of wealth, and all the power that wealth gives, in a progressively diminishing number of hands; coupled with a corresponding concentration of poverty, dearth, misery, vice, unhappiness and dispair in an ever increasing number of the luckless many. India is—at least in her industrial centres,—fast evolving this phenomenon; and the disgusting antics of the *nouveau riche* do nothing to palliate the evils. But while labour is as poor in India as it is plentiful, it has yet to achieve that solidarity and habit of acting in concert in large numbers which alone can obtain it its just due. The strikes in India have mostly failed[†]—not because the quarrel of labour was unjust; but because it is lacking in leadership that could grasp the problem of internal and external economy in each industry, and convict the employer from his own mouth of unpardonable selfishness and intolerable greed in grinding down the labouring class. This is an evil, which, in the present temper of the Government, we are not only powerless to prevent; but which we must resign ourselves to see increasing, as the foreign Government of India, for its own selfish ends, joins hands more and more with the capitalist class and support the latter.[‡]

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[*] Prof. Patrick Geddes has, indeed, been called in by several States and Governments to advise them on replanning their towns; but so far no visible tangible results have accrued. The eminent town-planner had, besides, no easy task. He had to undo in every case the wrong already accomplished; not to advise on a right path de novo. In every instance, therefore, he had to fight vested interests whether they called themselves Government, Municipalities or Improvement Trusts,—with the unavoidable consequence of a failure all round. The latest instance of concrete town-planning, at the instance of the present Governor of Bombay, through the Development Department Prof. Geddes has more than once described as the creation of "Bolshevik barracks."

[†] Capitalist class consciousness is already apparent; and Government seems to lead the way in its intensification if we are to judge from the methods adopted in crushing the postal strike of 1920-21 in Bombay.

[‡] The record of our Government in connection with labour in tea gardens has already been referred to; while its sympathies in its own commercial departments become increasingly transparent as capitalistic, recent legislation in restricting the hours of factory work, and

At this stage, however, the question tends to be political rather than economic; and we shall accordingly leave it here as getting beyond our scope, with just the observation that the only effective solution, in anticipation, of this root problem of modern industrialism—the change in organisation from a capitalistic to a co-operative or collectivist basis—is impossible of acceptance in India. Co-operative production may not seem quite so offensive as collectivism; but it has not been tried in India except in the field of agrarian debt relief or credit facilities. The results in that connection are meagre, after nearly 20 years of trial.* The collectivist organisation as represented by our Railways, for examples—will not be extended, as much because no honest trial is given to state enterprise, thanks to the intervention of the Companies as managers *de facto* of such enterprise, as also because of the unavoidable distrust of the present Government in the mind of the Indian people. There is, thus, nothing for it but either to allow the industrial warfare to intensify in India—that being a lesser evil than the absence of industry altogether; or wait for and fight for meanwhile on the single issue of political independence in India, leaving the disposal of such problems of our national economy to the free Indian Government responsible to the people of India.

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* *Number of Societies* for all India, showing the increase since 1906–07.

—	Average for 4 years from 1906–07 to 1909–10	Average for 5 years from 1910–11 to 1914–15.	Average for 5 years from 1915–16 to 1919–20.	1919–20.	1920–21.
1	2	3	4	5	6
Central (including Provincial and Central Banks and Banking Unions)...	17	231	304	4,030	449
Supervising and Guaranteeing Unions (including Re-insurance Societies)			638	994	1,150
Agricultural (including Cattle Insurance Societies)	1,713	10,891	25,873	36,716	42,582
Non-Agricultural... ...	196	664	1,662	2,662	3,322
Total...	1,926	11.786	28,477	4,0772	47,503

(Continued from p. 179).

the award of Workmen's compensation points in the same direction. It may just be, however, that the perception of rivalry between the interests of Indian industrialists and those of Britain, and a desire imperceptibly to side with the latter, may lead our government to show sympathies for Indian Labour demands, if not as genuine desire, to assist the underdog,

† *Number of members* for all India showing the increase since 1906–07.

	Average for 4 years from 1906-07 to 1909-10.	Average for 5 years from 1910-11 to 1914-15.	Average for 5 years from 1915-16 to 1919-20.	1919-20.	1920-21.
1	2	3	4	5	6
Central (including Provincial and Central Banks and Banking Unions)	1,987	23,677	89,925	127,145	143,488
Supervising & Guaranteeing Unions (including Reinsurance Societies)			10,971	17,274	19,322
Agricultural (including Cattle Insurance Societies)	107,643	459,096	902,930*	1,181,718	1,362,391
Non-Agricultural ...	54,267	89,157	226,031	39,420	390,513
Total Number of members of primary Societies ...	161,910	548,253	1,128,961	1,521,138	1,752,904

(Continued from p. 180.)
at least with a view to handicap the Indian manufacturer in his race against the British. There would not be much to be thankful for in that event. Shrewder industrialists in India have already begun to perceive this cloven hoof in the attempts at Liberal legislation for labour in India; and they are trying to outmanoeuvre by starting welfare institutions and liberal treatment on their own account.

* The subjoined tables show the progress of the Co-operative movement in India since its inception in 1904.

‡ Excluding members of Cattle Insurance Societies at the end of 1915-16 and 1916-17 and those in Bombay and the United Provinces at the end of 1917-18.

***Working Capital** for all India showing the increase since 1906-07:

—	Average for 4 years from 1906-07 to 1909-10.	Average for 5 years from 1910-11 to 1914-15.	Average for 5 years from 1915-16 to 1919-20.	1919-20	1920-21.
1	2	3	4	5	6
	Rs. (1,000)	Rs. (1,000)	Rs. (1,000)	Rs. (1,000)	Rs. (1,000)
Share capital paid up ..	13,19	88,87	2,51,97	3,40,09	4,05,25
Loans and deposits held at the end of the year from Members	14,12	88,28	96,35	1,37,02	1,63,60
Loans and deposits held at the end of the year from Societies	13,59	1,93,42*	47,81	73,94	99,41
Loans and deposits held at the end of the year from Provincial or Central Banks	...	...	5,03,19	7,26,62	9,19,10
Loans and deposits held at the end of the year from Government ..	5,86	10,87	25,53	37,38	49,50
Loans and deposits held at the end of the year from Non-Members and other sources	19,69	1,41,98	4,70,25	6,45,84	7,91,41,
Reserve and other Funds	1,67	25,00	1,23,32,	1,79,82	2,14,66
Total...	68,12	5,48,42	15,18,47	21,40,71	26,42,93

LVII. CAPITAL RESOURCES OF INDIA.

There is a peculiar form of evils of modern industrialism, which, however, deserves more than passing notice. We have already referred to the slow and silent but steady growth of class consciousness between the capitalist and the proletarian sections of the industrial population in India; and that consciousness in this country is rendered the more dangerous, because of its connection with race complications. The legend has commonly held the field so far that Indian capital is shy, and would not be coaxed into the paths of industrial investment for all the temptation it could be offered. We do not know if the capital resources of India are equal to financing the whole of Indian industry and agriculture with their capital needs of all sorts, though an attempt is made below to estimate the same. We know it, however, as a fact that, in consequence of this legend, which has been well kept to the front for obvious reasons, there has been considerable investment of foreign capital in India. Of the total of 281.76 crores of authorised capital in 1919-20 (or 157.81 crores of paid up capital) in all the Joint Stock companies working in India, if we regard Jute, Tea, Coal and Gold Mining and Banking, as mainly representing foreign capital investment in India, we get a figure roughly of Rs. 112.96 crores for 1923; to which if we add the sterling debt of the Government of India at £ 250 million, we get a round investment of foreign capital in India at the lowest of Rs. 487 crores. * Taking into account unregistered

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* Includes loans from Provincial or Central Banks.

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* This method of calculating is obviously most unsatisfactory I have taken all Jute mills and coal companies and other mining ventures as being wholly financed by foreign capital, as also the Tea and other plantation ventures. It is, however, a fact that of late a lot of capital in these concerns has changed hands and come to be owned by Indian capitalists, though the management of the industries in question is still almost entirely in non-Indian hands. On the other hand, non-Indians are taking a bigger and bigger slice of the investment in industries, which we have assumed above to be financed wholly by Indians. And this does not take any account of the foreign holders of the rupee debt of the Government of India, nor of the investment of foreign capital in India by private unregistered firms and individuals. On the whole the estimate of a witness before the Chamberlain Commission in 1913 putting the total foreign investment in India at £ 400 million is, if anything, likely to be exceeded at the present time.

By a calculation based upon the Stock and Share List (Investor's Guide and Shareholder's Gazette) appended to the *Capital* of 22nd March 1923, I find the paid up Ordinary capital—including Debentures and Preference Shares, invested in the following concerns managed by foreign firms of Managing Agents in the principal stock exchanges of India to aggregate Rs. 107·34 crores as per table below in detail.

	CONCERNS	Paid up ordinary capital	Issue of Preference shares	Debentures
1	Banks	20,18,99,100	68,94,000	
2	Jute Mills	12,82,10,345	5,70,13,200	3,58,15,750
3	Railway, steamer, Transport and storage companies	13,31,77,730	1,00,61,450	1,66,75,000
4	Coal companies	8,45,80,474	28,11,900	68,31,096
5	Engineering	5,96,77,271	61,30,000	6,25,000
6	Miscellaneous	6,19,40,674	2,51,87,450	27,88,831
7	Cotton Mills	4,62,01,257	1,97,29,000	63,79,500
8	Tea Companies	4,07,91,630	16,62,600	
9	Electric lighting, Power and Telephone	2,64,26,600	......	6,27,000
10	Sugar, Breweries, and Distilleries.	1,20,63,125	35,00,000	26,37,755
11	Real Property and Zemindary ...	1,02,65,500	8,76,200	1,53,000
12	Insurance Companies	81,13,605	......	......
13	Oil Mills	77,02,750	20,00,000	......
14	Saw Mills and Timber	58,50,000	3,00,000	14,00,000
15	Flour Mills	40,74,000	90,400	......
16	Chemical Industries	36,03,850	......	5,00,000
17	Cement, Lime, Fireclar, ...	59,89,068	2,60,000	19,00,000
18	Pressing Companies	26,30,000	1,50,000	......
19	Paper Mills	16,38,225	10,35,000	39,07,700
	Grand Total ...	85,55,31,196	13,76,41,200	8,02,37,632

investment by private individuals and firms of non-Indian origin, as well as the non-Indian holders of the rupee debt of the Government of India, the total foreign capital invested in India could not be less than 600 crores at the very lowest. To this class is secured all the most important and profitable section of industry in India—the best of mining and mineral concessions, the best of guaranteed interest on railways &c; with the inevitable result that the labour and capital conflict in India is becoming accentuated by the intervention of race antagonism tinged with a suspicion of needless favouritism to foreigners by the existing Government. Dr. Grünzel's remarks thus become more than ordinarily pointed under Indian conditions.

> "It is only in the early stages of capitalistic production that foreign investor's capital will be viewed by a country as desirable. As soon as the spirit of enterprise becomes active in the country itself, attempts will not be wanting to replace such capital by foreign loan capital, which leaves in the possession of the debtor country the excess of its earnings above interest, thus operating to enrich the latter more rapidly, and at the same time eliminating the unavoidable personal influence of the foreign capitalist on the domestic economic policy. The most insistent opposition to the foreign enterpriser will be found in the case of those enterprises to which is entrusted the safeguarding of any special economic interest of the community in the field of national defence, of trade, industry or commercial policy." (*Economic Protectionism* p. 254)

The question then arises whether India has actually come to entertain feelings of positive hostility to foreign capital invested and managed by the foreign capitalist in India on his own account; and, if so, whether India has capital resources of her own to build up the necessary and desirable minimum of industrial prosperity. On the first point there can, I think, be no disputing the fact of an acute racial tension, intensified still further by the spurious advantages which the foreign capitalist gets in India, though the Indian Fiscal Commission opined :—

(Continued from p. 183.)

These figures relate only to Joint Stock Companies registered and working in India, whose shares are quoted on the Indian exchanges. Companies, therefore, which, like the Exchange Banks and Insurance or Shipping Companies, are working in India but not registered in India, do not come under this review, though their capital investment is as effective from the stand-point of the drain as any other. The volume of this investment can hardly be guessed, as also that of private unregistered investment in firms with one or more proprietors. Altogether the effective, private foreign capital investment in India could not be much under 150 crores, while the sterling debt only of the Government of India is £ 250 millions, Rs. 375 crores—or an aggregate foreign investment of Rs. 525 crores—making a drain, at 6. p. c., of 30 crores of rupees per annum by way of net profits on capital investment only.

Says Mr. Rushbrook Williams in *India in* 1921-22. "By 1920, notwithstanding the elimination of the great German Asiatic Bank, the total number (of Exchange Banks) had risen to 15 of which the aggregate capital and reserves amounted to £ 90 million and the deposits in India to £ 74 million" Op. cit. p. 128-9. According to the *Indian Year Book* for 1923, these figures for 31st December 1921, were £ 97.2 million=145·8 crores of rupees in capital and Reserve. Though the whole of this capital is not invested in India it gives some idea of the business.

> "We hold, therefore, that from the economic point of view all the advantages which we anticipate from a policy of progressive industrialisation would be accentuated by the free utilisation of foreign capital and foreign resources."*

But such a view needlessly overlooks the actual facts. Evidence was laid before the Commission itself which pointed to a state of acute tension motived on racial grounds, which had penetrated even the domain of economics. But the Commission chose not to discuss proposals about restricting the advent of foreign capital in India. The existing tension is not merely a passing phase. It would be much the more preferable course to make recommendations with due regard to the actual facts, leaving it to a future and happier generation to recast the policy, if in their time the indisputable fact of racial animosity has died away. The Fiscal Commission has, I think, failed to appreciate the distinction that the present hatred in India is not so much towards foreign capital, as towards the foreign capitalist. Under the present unfortunate political circumstances of India, the foreign capitalist is able to command the mystic sympathy of the identity in race, even when he cannot boast of a more obvious relationship, with the ruling caste of foreigners. Thanks to this sympathy or relationship, he has been able to obtain information and even concessions, which place him in a position most favourably, but quite unfairly, to compete with his Indian confrère in business or industry. When once entrenched in business, no matter by what means, he is apt to regard his position and privileges as his property. He may be sensible enough to perceive these privileges to be at bottom wholly indefensible; but that does not make him the less fierce in defending what he believes to be his property. As a simple strategy of obvious expediency, he adopts an aggressive attitude even before the forces opposing him have deployed. His presence in India is the more objectionable because, in shaping the general policy affecting India, he wields an influence far greater than he could by any stretch of imagination be entitled to. The conquest and annexation of Burma in 1886-7, for example, was planned and achieved largely, if not entirely, with a view to facilitate the foreign capitalist in exploiting the petroleum and other resources of that country. We Indians had the privilege to pay the cost—not merely of the war, but also of the deficit in the civil administrative charges in Burma for 15 years or more after the annexation. And the foreign capitalist had the fullest benefit. This, however, is not a solitary instance of *la haute politique* in India being manœuvred in favour of the foreign elements, and dead against Indian interests, as the history of our currency organisation can testify.†

The distinction made above between encouragement to foreign capital and foreign capitalists is of immense practical importance. The latter under certain circumstances we would be prepared to welcome. If foreign capital in India could be confined only to its legitimate return of stipulated interest only; and if its entire command, direction and employment should be left in Indian hands, no one could have a great objection against its being used to develop Indian industry. [*] But when foreign capital demands as the price of its investment in this country, besides a handsome net return by way of interest, complete control and direction of the enterprise started by its aid, the intensely jealous nationalism of the ardent Indian nationalist would rather consent to a postponement of our industrial development than to see it accomplished at such a sacrifice as the foreign capitalist has been encouraged to demand. The majority of the Fiscal Commission were inclined to believe, that it will be to India's interest to develop Indian industries as rapidly as possible, so as to minimise the period of suffering entailed on the consumer. And if, for this purpose, Indian capital is not forthcoming in sufficient quantity, they will have no hesitation to invite and encourage foreign capital. Said they :—

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* *Indian Fiscal Commission* (Majority) Report, para 289.

† See the present writer's *Indian Currency, Exchange and Banking* 1922.

> "The more capital is employed in the development of the industries, the more rapid will be that development and therefore the shorter will be the period of burden on the consumer." [†]

But this dictum stands or falls with the assumption that the Indian capital in the required quantity is not forthcoming, and the advantages of foreign investments in India are not fully understood. In my judgment, the experience of the borrowing programme in India of the various Indian Governments and semi-public bodies in the last decade ought alone to suffice to discredit this legend of the shyness of the Indian capital. Even conceding that the success of Government loans is attributable to factors other than strictly economic, [‡] there is ample evidence of floatations of joint stock companies since 1919, which can no longer permit any belief in this myth. The subjoined table, gives a total capital outlay, including Government undertakings, in 1905, 1912 and 1914. [§]

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[*] The practice of borrowing in foreign centres has at last commended itself to Indian industrialists, as is shown by the beginning made by the Tata Iron and Steel Co., Ltd. in floating debentures for £ 2 3/4 million in London. A Rupee section has also been opened in the listed securities officially quoted on the London Stock Exchange.

[†] Para 289, Majority Report.

[‡] See *Sixty Years of Indian Finance*, Part IV for a criticism on the methods employed to make the war loans a success.

[§] This statement has been taken from Appendix 2 to the written evidence of Mr. Findlay Shirras, the Director of Statistics, before the *Indian Industrial Commission Minutes Evidence*, Vol. 2. p. 854.

Statement showing capital invested in India, so far as ascertainable from available statistics

	1905-06	1912-13	1914-15
	£ (1,000)	£ (1,000)	£ (1,000)
I.—Paid up capital (including debentures) of companies, registered under the Indian Companies Act, and of foreign companies, incorporated outside India (excluding Insurance, Navigation, and general trading companies, which only partly do business in India)			
Presidency Banks (a)	2,400	2,500	2,500
Indian Joint Stock Banks and Loan Companies...	1,913	3,895	3,940
Insurance	67	274	339
Tramways	1,406	5,763	2,367
Navigation	205	790	859
Cotton Mills	10,158	12,286	13,907
Jute Mills	7,015	9,827	10,510
Cotton and Jute Screws and Presses	1,159	1,885	1,942
Paper Mills	323	402	433
Rice Mills	1,144	2,698	865
Saw and Timber Mills	390	78	226
Tea Planting Companies... ...	15,682	18,951	22,589
Coal Mining	1,604	4,889	4,914
Gold Mining	2,573	3,033	2,549
All other Companies including General Trading Companies ...	9,825	26,307	26,319
Total ...	55,864	93,578	94,259
II.—Capital outlay, debts, loans etc.—			
Railways (capital outlay) ...	239,012	310,100	346,148
Irrigation („) ...	25,669	34,330	36,679
Telegraphs („) ...	6,204	7,865	8,350
Port Trusts (capital debt) ...	9,011	17,616	20,196
Municipal Loans	12,993	15,597	16,657
Co-operative Societies (paid-up capital)	31	3,562	5,977
Total ...	292,920	389,070	434,007
Grand Total £ (1,000)...	348,784	482,648	528,266
=Rs. (lakhs)...	5,23,18	7,23,97	7,92,40

The next table relates only to private enterprise as distinguished from Government undertakings, and shows an aggregate authorised capital investment in private companies registered and working in India of Rs. 548.22 crores.

Joint Stock Companies *Banking Loan and Insurance*	Authorised Capital.	Paid-up Capital.
Banking and Loan	94,03,36,922	9,35,05,791
Insurance	74,55,91,200	82,75,091
Total ...	1,68,59,28,122	10,17,80,882
Trading.		
Navigation	39,93,90,000	1,49,88,063
Railways and Tramways	16,42,90,000	13,67,99,684
Cooperative Associations	37,90,940	13,36,674
Shipping, landing and ware-housing ...	1,04,55,600	56,47,200
Printing, publishing, stationery ...	2,19,72,614	73,75,667
Others	1,20,18,64,618	26,88,42,608
Total ...	1,80,17,63,772	43,49,89,896
Mills and Presses.		
Cotton Mills	51,38,98,000	19,79,81,784
Jute Mills	19,36,46,000	11,65,25,985
Mills for wool, silk, hemp etc	7,56,75,000	1,23,51,210
Cotton and Jute, Screws and presses...	5,64,50,475	2,67,83,085
Paper Mills	68,00,000	44,84,635
Rice Mills	3,45 35,625	1,22,31,613
Flour Mills	1,40,00,000	74,10,135
Saw and timber mills	1,34,25,000	83,60,618
Other mills and presses	5,65,56,000	86,25,407
Total ...	96,49,86,100	39,47,54,472
Tea and other planting companies		
Tea	12,37,91,980	6,81,97,790
Coffee and cinchona	7,00 000	5,12,955
Others	3,32,26,000	87,15,962
Total ...	15,77,17,080	7,74,26,707
Mining and Quarrying		
Coal	13,92,02,120	7,40,90,252
Gold	24,57,500	17,83,656
Others	41,56,05,530	7,54,91,649
Total ...	55,72,65,150	15,13,65,557
Land and Building	13,40,98,100	3,64,05,932
Breweries	45,56,000	44,82,960
Ice Manufacture	15,56,845	11,26,979
Sugar Manufacture	2,14,07,672	87,35,096
Others	15,29,80,635	2,10,67,258
Total of all Companies	5,48,22,59,476	1,23,21,35,739

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* This statistics has been taken from the *Statistics of British India* Vol. I Commercial atistics, No 1558 of 1922 of the Department of Statistics page 10 7.

These figures relate to 1919–20, and are, accordingly, quite out of date, though officially they are the latest available. Reverting to the method adopted above for calculating foreign capital investment in India from the Shareholders' Gazette appended to the *Capital*, we find the total capital of all the companies registered and working in India to aggregate Rs. 138·94 crores, of which the non-Indian section totalled, as already observed, Rs. 85·55 crores of paid up capital. India has thus found from her own capital resources something like 53·39 crores.* In another work I have estimated† the total capital needs of India for the fullest desirable development at Rs. 1000 crores, of which about 400 crores would be wanted for agriculture, leaving 600 crores for financing new industries in India.

> "The question of finding the necessary funds for the establishment of all these various ventures has again and again been indirectly referred to, but not specifically discussed. Borrowing would no doubt have to be resorted to on a large scale for the initial outlay, while all subsequent extensions may be expected to be met out of the current revenues. The Government of India has already accumulated considerable reserves for the stability of the Anglo-Indian exchange (60 crores), and for the convertibility of the Paper money in circulation (50 crores). A portion of these funds may be safely diverted to such projects, particularly if simultaneously improvements in banking facilities render the apprehensions about exchange and conversion relatively innocuous. There are, besides, considerable amounts locked up in charitable funds, which might, if the Government commanded the full confidence of the community, be utilised for the same purposes. The sums possessed by religious bodies, and remaining practically utterly idle, are another source of capital, which a national Government of India must tap rather than render its credit sensitive by a resort to foreign money markets. It would be bold to say how much of the immediate capital requirements of India could be provided by India herself; but a modest estimate might suggest that half those needs could

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* See Table compiled from the *Capital* of 22-3-23.

1	Banks	27,47,21,729
2	Transport	21,82,32,615
3	Cotton mills	20,81,26,954
4	Miscellaneous	17,13,62,622
5	Jute mills	13,16,44,955
6	Coal Companies	8,88,00,404
7	Electric	8,72,84,270
8	Engineering	7 62,75,656
9	Tea Companies	3,96,89,835
10	Insurance	1,89,56,311
11	Cement	1,55,27,667
12	Sugar	1,20,63,125
13	Oil mills	1,09,82,050
14	Real property and zemindary	1,02,65,000
15	Chemical	93,78,380
16	Saw mills	73,50,000
17	Flour mills	4,4,95 000
18	Pressing Companies	31,55,000
19	Paper mills	11,38,225
	Total	138,94,49,798

† See *Sixty Years of Indian Finance* pp. 270 et seq.

be met by indigenous resources if only the Indian financiers know the right means to set about their business. "*

In the same work from which this extract is taken the resources available from the sources named are roughly estimated as follows:—

1	Savings Banks Deposits	Rs.	20	crores.
2	Half of Paper Currency and Gold Standard Reserves	"	60	"
3	Increased deposits by improved Banking methods	"	50	"
4	Public Trust monies	"	30	"
5	Portion of capital locked up with Religious Bodies and charitable endowments	"	200	"
	Total...	"	360	"

I have not included in this the capital available with Indian princes, and which might be requisitioned for service in the cause of industrial development; nor do I think it right to take into account only half the above reserves as available for industrial purposes. Altogether it would not be too much to conclude that Rs. 400 crores out of the 600 crores needed for Indian industrial development can be had in India itself, if only we would go about the business in the right manner. *

This last condition really contains the crux of the entire difficulty about capital. India has not yet developed the institutions to attract and employ the idle capital of the country. Before, therefore, deciding to attract foreign capital it is necessary that we try all those measures which have been tried in other countries for coaxing out the indigenous, hoarded wealth in each country. An Industrial Bank, for example, of the type outlined in another work of the present writer on *Indian Currency, Exchange and Banking*, is still a desideratum in India, and we cannot say how much it can assist in financing the industries of India. The adoption of such devices as the *Giro* system of payments, or the *postal cheque*, through the agency of the already existing Imperial Bank, might help to increase the deposits in the central banking institution of the country to a degree that cannot be precisely guessed by people who have not tried at all the experiment. It is also possible so to alter the laws relating to the investment of Trustee

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* *Sixty Years of Indian Finance* Page. 333.

* This estimate of our capital requirements is based on the assumption that all new industry, like ship building, and the extension of all the existing industries, must be conducted and financed on the collectivist, or at least the co-operationist, basis, that would guarantee the greatest possible achievement of economy in financiering. The capital needs on the principle of competitive private enterprise on individualist basis would, of course, be much greater and the waste also would be proportionately greater.

† Op. cit pp. 381-406

Securities and analogous funds, through an institution guaranteed, as the Industrial Bank should be guaranteed, as to obtain very considerable funds for the financing of new industries in India that can be reasonably expected to yield substantial returns in a short period.

Until such expedients have been tried, it would be improper to insist upon free encouragement to foreign capital for investment in India, in view of the unfortunate political conditions of to-day. On the other hand, no one familiar with the Indian economic conditions of to-day could ignore the difficulties in the way of excluding foreign capital from India. The majority of the Fiscal Commission was, indeed, grossly negligent and slipshod in its observations when it wrote:—

> "It is perhaps not generally realised that the law at present provides that any company trading in India must be registered in India."[*]

There is no such law. There are scores of banking, shipping and insurance companies, which, though trading on a very large scale in India were yet registered in England. Quite apart from the venom of already vested interests, there is the further factor of difficulty in defining a "foreigner" in India. For all practical purposes a Britisher is a foreigner in India; and yet the fiction of the political unity of the British Empire would cause, we may be certain, any amount of hardships when we desire a restrictive definition against the foreign British element in India. The race bar will have to be reversed, if the consciousness of Indian self-respect is to be recognised and given effect to. No political prejudice or racial animosity need be perceived in this purely economic consideration of seeking to finance our industries as far as possible by our own capital, and thereby eliminating in advance one important difficulty in the way of tackling the problem of industrial peace in India—the problem of opposing vested interests of foreign capitalists. It must be admitted that we in India are neither first nor alone in showing this distrust of foreign capital. The jealousy of the alien colours the whole of the Common Law of England; and even today in free trade England the foreigner is, by law, not allowed to be a proprietor in part or whole of a British ship.[*] In China they have laws against granting mineral concessions to foreigners, and so also in Roumania, Greece or Chile. Even in the Commonwealth of Australia, as late as 1921, they passed a law called the War Precautions Repeal Act, section 8 of which provides that no company, in which more than one-third of the shares are held by aliens, shall acquire any mine or interest in a mine, or carry on any mining or metallurgical business. It forbids a foreigner to acquire any share in any company incorporated in the common-wealth, without an express permission in writing of the Treasurer. (Section 11). France, also, has followed suit in 1923, and has forbidden, the acquisition of any property in France by a foreigner. With such precedents, and with their experience, it would not be unreasonable for Indians to require that, at least in certain specified cases of vital importance, the investment of foreign capital must be restricted. [†] The exploitation of all forms of mineral wealth, the manufacture of ordnance and munitions of war, the socalled key industries like ship-building may be cited as instances wherein, if only for the sake of National defence, we must have an exclusion of the foreign capitalist. In all other cases room may be left for legislation for a preferential treatment of Indian capital; which, however, will not be satisfied by merely requiring rupee capital, Indian domicile, proportion of Indians on the directorate, and a compulsory provision for the training of Indians as apprentices in such concerns to be enforced by law, as suggested by the minority in their dissent to the Fiscal Commission Report. [‡]

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[*] Para 29 of the Majority Report. Until only the other day, the Bombay Tramways and Electric Supply Co. though doing the *whole* of its business in India was yet registered in London; while the principal guaranteed railways in India have all their managing companies registered in England. The Fiscal Commission Report is a document drawn up in the most careless and inefficient manner reflecting very poorly upon the intelligence and ability of those entrusted with the task.

Here is an official contradiction. Says the *Decennial Report of the Moral and Material Progress of India for* 1901-2 to 1911-12 :

"The above figures do not include the numerous and important companies that, while carrying on business in India, are registered in other countries and have their capital in money other than Indian. The number of companies of this description carrying on work *exclusively or nearly so, in India*, mostly with sterling capital, was, at the end of 1911, so far as known, 373, with a paid up capital of £ 77,979,000 besides £ 45,358,000 debentures" [Op. cit. p. 298.] Though the law relating to Joint Stock Companies was altered and consolidated in 1913, it in no way compels every company "trading" in India to be registered in India. According to table No. 50 in the *Statistics of British India*, Vol. I *Commercial Statistics*, page 122-6, there were in all 634 such companies incorporated outside India, but working in India on the 31st March 1920, with an authorised capital of £ 650, 294, 699 of which £ 420, 632, 910 was paid up, without including £ 102, 729, 703 worth of debentures issued by such companies.

This somewhat long discussion has been interposed at this point to emphasize the double evils of capitalism, and class consciousness fostered by it, as the characteristic outcome of modern industrialism. We shall, certainly, not be able to avoid all the evils of modern industrialism simply by restricting the inflow of foreign capital, if we suffer unrestricted individualism to dominate, and private greed to motive, the new era in this country. Restrictions upon or exclusion of foreign capital are desirable only because of the help they render to avoid political complications. In themselves, therefore, they would do only one-half the work before the careful and far-sighted statesman of India, who would avoid or minimise the evils of modern industrialism. The other half will have to be achieved by recasting the accepted, or providing an alternative, organisation for new industry. Personally, I would prefer a frank acceptance of the collectivist principle. Every new industry, which, like mining or ship-building, requires to be conducted on a large scale in order to be profitable, should be undertaken and operated by the state directly; so that all the profits belong to the community and be returnable to it in the form of reduced prices to the consumer, or higher wages to the producer. But, once again, the political misfortunes of India bar the way to an honest attempt at collectivism. The unavoidable suspicion which hangs upon a foreign government with the antecedents of the Government of India cannot but make the people chary of trusting a proved traitor with fresh responsibilities. It would thus be sounder politics, if somewhat crude economics, to propose, as a solution of the likely evils of modern industrialism, that production be organised on the co-operative principle, somewhat on the lines we have already suggested above in connection with the cotton industry. * Co-operation has never been tried in India in the field of Production on a large scale; but that is no reason why it should not be tried now. In countries which have tried it, the verdict of experience is by no means unanimously in favour. But that, perhaps, is just the reason why co-operation should be given a trial, without which the inherent defects of co-operative organisation in production will fail to be perceived or duly appreciated. Whether, therefore, we think of the conservation of our foodstuffs and raw materials; or of the depopulation of the country-side and the concurrent growth of towns with all their problems of sanitation, communication, demoralisation; or, finally, of the root-evil of modern industrialism—its unequal distribution of the reward for labour, intelligence and enterprise; the adoption and extension of the co-operative principle affords an admirable *via media*, an excellent half-way house for the only real solution of the entire problem, viz. collective ownership, control and operation of the means of production, exchange and distribution.

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[*] The Merchant Shipping Act of 1894, S. 13; The Naturalisation of Alien's Act S. 1.

[†] "The accepted policy in this regard to-day has thus been summarised. "The settled policy of the Government of India, as I think we have mentioned more than once in this assembly, is that no concession should be given to any firms in regard to industries in India unless such firms have a rupee capital, unless such firms have a proportion, at any rate, of Indian Directors, and unless such firms allow facilities for Indian apprentices to be trained in their works." Mr. Chatterji in the Legislative Assembly of 2nd March 1922.

[‡] Para 51 of the Minute of Dissent Op. cit.

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* See ch. III. ante.

Chapter VI.

DIRECTION OF THE TRADE OF INDIA.

LVIII. OUR PRINCIPAL CUSTOMERS.

A review of our trade with different countries shows some remarkable changes. Before the war the chief countries from which India drew her imports were United Kingdom, Germany, Java, Japan, the United States, and Austria-Hungary. In 1913-14 the United Kingdom supplied 64 p. c. of the total imports, Germany 7 per cent, Java 6 per cent, Japan and the United States of America nearly 3 p. c. each, and Austria-Hungary 2, or a total of 85 p. c. of our import trade. On the other hand the six chief destinations of India's exports were the United Kingdom 24 p. c., Germany 10 p. c., Japan and the United States of America 9 p. c. each, France 7 p. c. and Belgium 5 p. c. or a total of 64 p. c. * Obviously the export trade of India was much better distributed than the import trade. It may also be noted, with the single exception of the United Kingdom wherefrom we imported *more* than we exported, India habitually exported more than she imported. Germany, it is equally obvious, was, before the war, the best customer of India, both in Imports and Exports, next after the United Kingdom. The overwhelming predominance of the United Kingdom in the foreign trade of India is due rather to her political influence than to the economic excellence. The following table gives an idea of the distribution of our foreign trade in the present century. The figures are given in per centages of total imports of merchandise, and of total exports of Indian goods. They have been compiled from the *Decennial Report of the Moral and Material Progress of India for 1901-2 to 1911-12* † and the *Review of the Trade of India in 1921-22.* ‡

Countries.	Imports Percentage.							
	1901-2	1907-8	1909-10	1911-12	1913-14	1919-20	1920-21	1921-22
United Kingdom ...	64.5	66.7	62.6	62.4	64.1	50.5	60.9	56.6
Straits Settlements ...	2.8	2.2	2.4	2.1	1.8	2.9	1.4	1.5
Hongkong	1.3	0.7	0.7	0.7	0.5	1.3	0.7	0.6
Ceylon	1.1	0.7	0.6	0.5	0.4	1.2	0.3	0.5
Australia	0.8	0.6	0.8	0.8	0.5	1.6	0.4	3.5
Mauritius	2.4	1.9	2.1	1.4	1.3	0.6	0.3	0.8
Total Br. Empire...	**73.6**	**73.6**	**70.5**	**68.9**	**70.0**	**60.1**	**66.0**	**66.5**
Germany	3.7	5.9	5.5	6.4	6.9	...	1.4	2.7
United States ...	1.7	2.7	3.1	3.8	2.6	12.1	10.5	8.1
Japan	1.0	1.7	2.2	2.5	2.6	9.2	7.9	5.1
Belgium	3.7	1.6	1.7	1.7	2.3	0.3	1.6	2.1
France	1.7	1.5	1.5	1.5	1.5	0.8	1.1	0.8
Java	0.5	4.5	6.8	6.8	5.8	9.4	4.6	8.9
China	1.0	0.9	1.1	1.1	0.9	1.8	0.9	1.0
Austria-Hungary ...	4.8	1.9	2.2	1.9	2.3	0.1	0.2	...
Italy	1.2	0.8	0.8	0.9	1.1	0.6	1.2	0.8
Total Foreign Countries...	**26.4**	**26.4**	**29.5**	**31.1**	**30.0**	**39.9**	**34.0**	**33.5**

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* See the *Review of the Trade of India for* 1914-15 ch. II p. 11.

† Op. cit. p. 293.

‡ Op. cit. p. 27.

EXPORTS.

United Kingdom ...	25.1	25.9	26.2	26.0	23.4	29.9	21.9	20.1
Straits Settlements ...	5.2	3.9	3.2	3.9	2.7	2.3	3.5	3.1
Hongkong	8.1	4.8	5.2	3.7	3.1	2.8	2.9	2.7
Ceylon	3.7	3.5	3.4	3.7	3.6	3.4	4.6	5.0
Australia	1.3	1.5	1.5	1.3	1.6	1.0	2.4	1.6
Mauritius	1.1	0.6	0.6	0.6	...	...	...	...
Total Br. Empire...	**47.1**	**42.6**	**42.4**	**41.6**	**38.0**	**44.2**	**42.6**	**41.2**
Germany	8.4	12.0	9.8	10.2	10.6	0.4	3.4	6.7
United States ...	6.9	7.9	7.8	7.0	8.7	14.8	14.7	10.0
Japan	5.7	5.1	6.8	7.5	9.1	14.2	9.4	13.7
Belgium	3.9	4.9	5.5	6.0	4.8	3.1	5.0	3.3
France	7.3	6.3	6.2	6.2	7.1	5.1	3.7	4.0
Java	0.3	0.7	0.8	1.9	0.8	0.6	1.2	1.7
China	6.4	3.8	4.7	4.5	2.3	3.3	3.3	4.5
Austria-Hungary ...	1.9	3.6	3.5	3.4	4.0	0.1	0.3	0.3
Italy	2.4	3.2	3.3	2.8	3.1	2.5	2.6	2.4
Total Foreign Countries...	**52.9**	**57.4**	**57.6**	**58.4**	**62.0**	**55.8**	**57.4**	**58.8**

Several points of cardinal importance in trade politics emerge from this tabular statement. The order of importance for ten of our principal customers, in imports and exports was as follows at the beginning of the century and now:—

Order of importance of our Customers

	In 1901-2		In 1921-22	
	Imports	Exports	Imports	Exports
1	United Kingdom.	United Kingdom	United Kingdom	United Kgdm
2	Austria	Germany	Java	Japan
3	Germany }	Hongkong	United States	United States
4	Belgium }	France	Japan	Germany
5	Straits Settlements	United States	Australia	Ceylon
		China	Germany	China
6	Mauritius.	Japan	Belgium	France
7	United States	Straits Settmts	Straits Settmts	Belgium
8	France	Belgium	China	Straits Settmts
9	Hongkong	Ceylon.	Italy	Hongkong
10	Italy		Mauritius	

While the United Kingdom has retained the first place in both cases, her trade is however steadily declining, the imports from her falling from 64·5 to 56,6% and exports declining from 25·1% to 20·1 p. c. The fortunes of Germany have varied for obvious reasons, and, while the present unsettled conditions last, it is impossible to believe she would recover her position

The most remarkable rise is that of Java, which from barely ½ p. c. at the beginning of the century now supplies nearly 9 p. c. of our total imports. Both the United States and Japan have enormously improved their position, equally on the Imports as well as on the Exports side; and what Germany seems to have lost appears to be more than taken up by these two. The British Empire collectively also shows a declining tendency on both sides of the trade schedules, while France, Belgium, China and Italy pretty nearly maintain their position. The most acute rivalry in the near future thus seems to lie between the United Kingdom on the one hand and the United States and Japan on the other.

LIX. THE CONFLICT OF INDIAN AND IMPERIAL INTERESTS.

As the imports, however, are far more considerable from the United Kingdom; and as the Indian ambitions in the direction of industrialism would first be directed against the cutting of these imports by developing corresponding industries in India, it seems more than probable that protectionist sentiments in India will not be satisfied without a definite attack against the British position. The following table relates to the share of the principal countries in a dozen leading articles of imports into India in 1921-22.

Countries.	Iron & Steel.	Machinery.	Hardware.	Motor Cars.	Railway Plant	Instruments.	Cotton Manufactures.	Silk Manufactures.	Sugar.	Liquors.	Mineral Oil.	Paper.
United Kgdm ...	53.8	83.2	62.4	50.0	97 3	68 9	83.2	3 3	0.8	64 8	5.0	48.0
United States ...	20.9	13.2	17 4	24.6	0.7	19 9	1.4	...	...	...	66.3	...
Germany ...	5.9	1.6	10.4		0.2	2 9	0.1		...	5.0	...	8.1
Belgium ...	16.1	0.5	...	3.3	0 4	...		...	2.0	...	...	...
Japan ...	...	...	3.4	...	...	1.1	11.4	47.2	...	...	...	...
France ...	...	...	...	4.4	...	...	...	2.0	...	16.4	...	...
Italy ...	...	...	...	4.7	...	3.3	0.5	7.0	...	...	...	...
Canada ...	...	...	...	7.7	...	..	...	...	. 4	...	...	...
Australia ..	...	...	...	...	1.1	...	...	...	...	...	...	...
Netherlands ...	...	...	...	...	...	...	2 0	...	...	...	8.	...
China ...	...	...	...	...	...	...	...	37.8	...	...	...	...
Java ...	...	...	...	...	...	...	...	...	87.2	...	...	...
Mauritius ...	...	...	...	...	...	.	...	...	8.1	...	..	...
Persia ...	...	...	...	...	...	...	...	...	...	...	15.0	..
Borneo ...	...	...	...	...	...	...	...	..	...	...	11.9	...
Norway ...	...	...	...	...	...	...	...	...	...	...	...	9.8
Sweden ...	...	..	...	...	...	...	...	...	...	...	...	8.5
Total trade of these...	96.7	98.5	93.4	94.7	99.7	96.5	98.6	97 3	98.5	86.4	97.4	74.4
Total trade in crores...	21.13	34.26	5.92	2.72	18.91	5.15	56.94	2.99	27.50	3.77	7.34	2.34

Practically the whole of our import trade is derived from 5 countries, three in Europe, one in America, and one in Asia. In every case the exigencies of the late war had compelled the United Kingdom to surrender a part of her trade, which, however, was taken up not by India, as ought to have been the case, but by the principal foreign rivals of Britain, notably Japan and the United States. If India should decide upon a policy of protection to her own industries, and adopt every possible measure of active aid to develop them, the first and the most considerable sufferer would no doubt be the British Isles. But if there was no other reason justifying the adoption of energetic measures by this country to develop her own industries, this alone ought to suffice : that the experience of the war and after, showing with what ease foreign countries can take up the British Trade, and thus deal a blow, not only to the prosperity but also to the economic integrity of the Empire, justifies the attempt by each component part of the Empire to develop its resources to the fullest capacity in all directions, if only to maintain the economic integrity and sufficiency of the Empire. We shall discuss more fully the question of Imperial Preference in the Section of this work dealing with Tariffs. But we may point out here that the adoption of active measures by India to safeguard or promote her own industries, thereby curtailing the imports from abroad, could not be effectively resented by any country now taking our produce, as the latter is in most cases essential for the national existence of the countries concerned as shown by the following table of our Exports : *

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* This Foot Note and the previous table have been compiled from the *Annual Review of the Trade of India for* 1921-22.

	Tea		Jute (raw)		Jute manufactures		Cotton (raw)		Oil seeds		Food grains		Hides and skins (raw and tanned)	
	1913–14	1921–22	1913–14	1921–22	1913–14	1921–22	1913–14	1921–22	1913–14	1921–22	1913–14	1921–22	1913–14	1921–22
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
United Kingdom	72.4	88.6	38.0	20.4	6.3	6.8	...	...	22.2	24.4	26.7	9.6	25.9	32.9
Canada	4.3	3.0	...	...	...	...	..	...	...	...	...	...	...	...
Australia	3.1	1.7	...	...	10.6	9.1	...	...	...	..	...	...	...	...
Russia	11.1	...		...	...	...	...	...	...	...	...	...	...	...
Persia, Arabia Turkey Asiatic and Mesopotamia	1.2	1.4	11.9	...	...	...	...	...	...	...	...	...	...	34.1
United States	.7	1.8	...	13.2	41.5	40.3	...	...	...	...	...	...	24.3	...
Ceylon	1.6	1.4	21.8	...	...	...	...	...	...	...	11.5	22.6	...	9.5
Germany	...	...	9.9	29.9	...	...	14.6	6.9	16.6	8.8	7.8	14.0	20.3	...
France	...	...	5.5	12.1	...	...	...	4.4	31.4	30.6	...	...	...	3.5
Italy	...	...	...	6.0	...	...	7.7	...	5.0	8.2	...	..	5.3	...
Argentine	...	...	...	...	10.4	7.7	...	...	...	...	...	...	...	...
Java	...	...	...	...	2.5	3.5	...	...	...	...	...	...	...	...
Japan	...	...	...	...	.5	4.4	47.2	60.3	...	...	...	...	...	...
Belgium	...	...	...	...	...	...	10.3	6.1	16.0	14.0	...	...	...	...
China	...	...	...	...	...	...	1.7	15.6	...	...	...	...	...	...
Netherlands	...	...	...	...	...	...	...	...	1.0	3.7	...	...	3.3	3.4
Straits Settlements	...	...	...	...	...	...	...	...	...	...	6.7	8.4	...	...
Spain	...	...	...	...	...	...	...	...	...	...	...	...	2.8	2.6
Percentage of total trade represented by countries shown ...	94.4	97.9	87.1	81.6	71.8	71.8	81.5	93.3	91.6	89.7	52.7	54.6	81.9	86.0
Total value of trade Rs. (Lakhs).	14.98	18.22	30.83	14.05	28.27	30.00	41.04	53.97	25.65	17.40	45.14	29.99	15.95	9.90

LX. CHARACTER OF OUR BRITISH AND NON-BRITISH TRADE.

In the latest years for which figures are available, 31 p. c. of the total imports from the United Kingdom consisted of cotton manufactures including twist and yarn, while metals and their manufactures, machinery and railway material accounted for another 41 p. c. The principal articles of exports to the United Kingdom were tea, raw and manufactured jute, seeds, food-grains, raw and tanned hides and skins, and raw wool,—representing 69 p.c. of the total exports to that destination.

The other British possessions together show a trade of 78 crores, of which the imports were 26 and the exports 52 crores, while the total trade with the United Kingdom was 200 crores, of which imports accounted for 151 crores and exports 49. If we leave out Ceylon, which is really a part of India, and the Straits Settlements, which may reasonably be regarded as coming within the Indian zone of influence, the trade with the other members of the Empire would be quite insignificant. *

In regard to the trade with foreign countries proper, we need notice only the most important ones. Japan is now first among the foreign customers of India, her total trade being 52·26 crores as against the U. S. A trade of 47·21 crores. Together they account for 66 p. c. of the exports of India to foreign countries and 52 p. c. of the imports. Chief among the imports from Japan are cotton manufactures which accounted for 48 p. c. of that trade; and that country also supplied the bulk of our imports under glassware, matches and silk manufactures. Machinery, mill-work, hardware &c. have also begun to be exported from Japan to this country. On the exports side, 84 p. c. of the total Indo-Japanese exports were accounted for by raw cotton alone. Other exports to Japan were raw jute, gunny bags indigo, paraffin, wax, bones, rape and sesamum cake, rice and shellac-which all increased in values in 1921-22 as against 1920-21; while opium decreased. In every article of trade with Japan, there is a keen rivalry both of Indian products and foreign goods; and so the Indo-Japanese section of our foreign trade is bound to prove most interesting when new departures are undertaken in our trade policy.

Not so, in all probability, as regards the Indo-American trade. By her situation, resources and industrial position America is removed almost wholly from any danger of successful competition in some of her "specialities." Her trade with India as with most other countries of the world may be regarded as really in the nature of surplus and special products

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* In the annual *Review of the Trade of India in* 1921-22 (p. 30) the trade with Egypt is discussed under the section of "other British Possessions." I do not know what justification there can be for such a treatment. The above figures, however, being taken bodily from the Review, represent a vitiated state of affairs. It must be noted that much of the trade with Hongkong and the Persian Gulf is really in the nature of non-British trade, as the immediate recipients are not ultimate consumers.

being exchanged; and so artificial helps or hindrances are likely not very seriously to affect her position. This does not, of course, imply that, as it is, there is no rivalry felt between the United States and Japan. The principal articles imported from the United States were motor vehicles, mineral oils, iron and steel, machinery and mill-work and hardware—these five making up a total of 70 per cent. of the total imports from that country. On the other hand, exports included raw and manufactured jute, shellac, and raw hides and skins—these accounting for 86 per cent of the exports to U. S. A. In either case each of the trading countries seems to be fairly snuglyentrenched in its own position, and artificial aids would not much affect their respective position.

The trade with Java looms large in the latest returns, but the bulk of it consists of sugar imports into India. Indian ambitions in these directions are bound to conflict with the Javanese trade.

Germany, our best customer in pre-war days, has not yet regained her position, and is not likely to do so while the Reparations tangle continues.

LXI. PROBABLE TREND OF INDIAN TRADE IN FUTURE.

If the figures given elsewhere in this chapter about the movements in our foreign trade during the last 20 years are at all to be relied upon, the Indian trade with the British Empire, and particulary the United Kingdom, is steadily diminishing, and will tend to diminish still further as the rivalry with other countries becomes more effective. The only question is whether what Britain and the members of her Empire are compelled to surrender in the trade with India, will be taken up by India, or will be swallowed up by other more alert and up-to-date rivals. It would be India's own fault, or rather that of her Government, if she does not benefit in that eventuality. We have already pointed out, while discussing the transfrontier trade of India, that the greatest hope for India lies in developing her trade with her immediate neighbours across the rivers and mountains and seas on her frontier. Our study in this chapter confirms the view that, while in other and more distant markets India might find serious opposition from vested interests, in the case of her immediate neighbours, she has special advantages to develop an extensive trade on more natural lines. Speciality in resources and equipment, coupled with the existence of adequate means of efficient transport, and the presence as well as familiarity of our traders with the markets concerned, their needs and nature, ought to help immensely in developing the Indian trade in Persia, Arabia, Afghanistan, Egypt, Africa and Turkey, not to mention the Straits Settlements and China.

LXII. INDIA IN AN ASIATIC ZOLLVEREIN.

And this raises the most important question in the trade organisation of the future. Whatever be the force and effect of nationalism today in

India or Japan in shaping the fiscal policies of the countries concerned, it must be recognised, that once each country has really and fully developed her inherent resources, and organised her trade on the truly natural lines of exchanging the surplus or specialities, the best condition for international trade to thrive in, would, of course, be that of complete freedom. Artificial regulation of fiscal policy in aid of industrial development on a nationalist basis can only be justified, scientifically, as a temporary measure, to rectify the inequalities in international commerce which are at present in existence as a result of historical accidents. The best measure of success for an intensely national and protectionist policy will be found in the quickest extinction of any need to maintain that policy. But the real foundation for a complete international freedom of exchange will and must be laid by degrees. For it presupposes the breakdown of the nationalist sentiment, and the simultaneous creation of an economic position in each community which will leave no room for the suspicion of being exploited for alien benefit. We cannot achieve this at a stroke. And so the beginning would be made by extending the radius of free zones, by voluntary associations of several units into a larger whole, like a Zollverein of Asia confronting a United States of Europe-not, be it understood, for the exploitation of Africa or America, but for fair, free exchange of the surplus and specialities of each large unit. It is possible, indeed necessary, that for such a consummation the present individualist organisation of trade would have to be replaced by a more collective organisation. Instead of being a matter of individual fancy and bargaining as to-day, trade between such units would be determined by special treaties concluded every year or for a given period. In stead of being at the mercy of amateur and ignorant speculators, whose personal greed seldom leaves them time or inclination, even assuming them to possess the requisite ability and intelligince, to study carefully the forces governing demand and supply of the articles they would trade, trade would result from the perception, after a careful study and measurement, of the local production and consumption. There would then be every reason to believe in the saying: Fair exchange is no robbery. And when these arrangments have been in operation for any considerable time, the futility of restrictions against the natural movement of commodities, under the safeguard of communal action, will be too clearly established to be long permitted to exist. Free trade all round will be the logical and unavoidable conclusion of such an evolution.

But in an Asiatic Zollverein of the type here contemplated, what will be the position of India? She is to-day undoubtedly backward as compared with Japan in industrial equipment. But India has resources and possibilities, a physical extent and population strength, which Japan cannot pretend to. If Indian economic development is accomplished on the lines here sketched, there is every reason to believe that India and Japan will be soon the strongest rivals in their own, as well as in foreign, markets. The question will be—when all Asiatic countries have been left free from alien influences of artificial development, and accomplished each their own goal of industrial regeneration—not for the hegemony of Asia, but for the strongest support to the new league or union of Asiatic countries. I believe India and China have each more staying power and real strength than Japan can lay claim to. The real advantage of that country lies in the earlier start it has had in industrial development. But that advantage is spurious or at least temporary. By the time, therefore, that an Asiatic zollverein is formed; by the very forces which would bring such an organisation into existence, India would have far outstripped Japan, but not necessarily China, in importance and position in a union of Asiatic nations.

LXIII. AN INTERNAL ANOMALY—THE TRADE WITH THE NATIVE STATES.

While speaking of the Asiatic Zollverein, however, one cannot help being reminded of the great anomaly and anachronism in relation to a section of the internal trade of India. While the interprovincial trade is free from all needless impediments; while the freedom of exchange over the whole world is coming to be increasingly accepted as the ideal to be striven for, one section of the inland trade of India suffers from all the petty restrictions and customs hindrances that disfigure the economic history in the past. Each Native State has its own scale of import and export duties, in which the only intelligible principle discernible is that of the utmost revenue to the state, no matter what the consequences may be to the community.[*] It is, indeed, true that a series of treaties has secured a certain measure of freedom of exchange. Says Sir W. Lee-Warner:—

> "The union of the whole empire has been consolidated in recent years by numerous engagements with the chiefs for the removal of injurious restrictions on trade. In the unreserved adoption of free trade, the state of Kolhapur took a leading place in 1886, and other states, especially on the Western side of India, have followed the example. But these reforms of the fiscal system are effected by agreement, and are not introduced by the assertion of Imperial authority except where the British Government acquired from the Peshwa special rights in the matter, or where circumstances have called for exceptional intervention." [†]

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[*] To give but one example, the state of Cutch, a maritime state with harbours of its own, levies a customs duty on imports into and exports from the state alike, with certain exceptions by way of prohibitions. The real burden of the duty, however, is much more considerable, thanks to an artful manipulation of exchange. While the current rate of exchange between the British rupee and the local *kori* is something like Rs. 100-Ks. 175, the rate assumed for customs purposes is Rs. 100=Ks. 450. Goods worth Rs. 100 when imported into Cutch would be taxed at 7½ as though they were worth Rs. 257-0 a burden of nearly 20 p. c.

[†] cp. Lee-Warner's *The Native States of India* ch. X p. 311. The following figures of Customs Revenue from some of the principal states makes an excellent commentary on this idea of the Union of the Indian Empire.

Customs Revenue in the State of :—

The Nizam	Rs. 65,84,000	Bikanir	Rs. 11,06,600
Mysore	Nil.	Jodhpur	Rs. 16,24,015

But the actual state is such that the states which feel themselves cut off from the customs income owing to specific engagements or the general perception of the real advantages of their country, consider themselves to be aggrieved, and would very much like to participate in the revenue benefits of any revision of the Tariff policy of India. They have actually threatened free trade, * not because any of them have perceived the advantage of a complete freedom of exchange over such an extensive unit as India; but because the threat is likely to procure them a slice of the improved customs revenue, which they feel sure is going to accrue from a protectionist revision of the fiscal policy of India. We are not concerned here with, and shall not therefore discuss, the much wider question involved in this; viz. as to the apportionment of the customs revenue under a protectionist system between the Government of India and the Native States, and the assumption by the latter, as a sort of a *quid pro. quo*, of some portion of the burden of the former. It is not exclusively an economic question. We cannot likewise discuss in this place even the narrower question of the advisability for the individual states,—and particularly those who have no direct access through their own territory entirely to the sea to contemplate any special fiscal policy for themselves—protectionist or free trading. We can only say that the fiscal policy for the whole of India must be one and uniform. It will not pay small isolated units to venture their own experiments in this field. The point, however, which led us to touch upon this question at all is much more narrow and specific. We must have a complete freedom of trade within our own frontiers, as much in order to develop India fully in all parts equally, as to guarantee a certain measure of success to a policy of economic protectionism, when one comes to be attempted. Any restrictions or impediments, like customs dues and currency differences, which stand in the way of such a freedom of exchange, ought to be unreservedly condemned.

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* "In one part of their joint memorandum it was said that, if the states were unable to obtain any satisfaction of their claim to a share in the customs revenue, it might be to their advantage to keep that revenue as low as possible, and therefore to advocate a system of free trade. But it was made clear in a later passage, and by our oral examination of Mr. Mehta, that the real view of the states was, that for themselves as for the rest of India, a policy of discriminating protection was the most suitable." Para 297 of the Report, *Indian Fiscal Commission.* They have tried to reconcile the interests of the states and producers and consumers under the policy they have advocated,

Chapter VII.

TRADE FINANCE IN INDIA.

LXIV. PRINCIPLES OF COMMERCIAL FINANCE.

The organisation of modern industry and commerce makes the distinction and separation between commercial and industrial financing one of the most important, if not quite the most obvious, features of present day economic structure. In times gone by the merchant was himself the industrial producer as well; and though it may also be the ambition of the gigantic industrialists of to-day to develop their own direct marketing, so far at least, in the most highly organised countries of the world, the direct relations of the manufacturer with the consumer have not been found feasible.[*] And it is unavoidable in the nature of things that the two be separate. Modern mammoth-scale industry would simply not be possible, if each industrialist insisted on doing business only with his own capital. "Other people's money" is becoming more and more the rule for the conduct of modern industry. But, apart from the capital required for the construction of a factory, purchase of machinery and other fixed charges like goodwill or patents or any such non-recurrent permanent investments, money will also be needed for the purchase of raw material, payment of wages, transport of the finished goods &c. The former we may call, for the purposes of this discussion, fixed capital, which cannot be returned if the business is at all to be conducted. Though, therefore, it may be borrowed capital, it would practically be borrowed for good, and both borrowers and lenders know it.[†] The lenders, knowing this, become proprietors in the concern instead of merely remaining creditors; and seek to compensate themselves for the fact of their capital being practically non-returnable except on the winding up of the concern [‡] by participating in the profits.

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[*] In the *Theory and Practice of International Commerce*, Mr. A. J. Wolfe thus sums up the German i, e, the most highly developed organisation before the war: "The German manufacturer, as a rule, was not in a position to grant credit to customers in foreign countries, and was hardly a factor in the export trade at all. The German export trade was largely in the hands of the German export merchants. Very little direct dealing between German manufacturers and oversea customers was done. The German manufacturers, however, showed a tendency to emancipate themselves from the mediation of the export merchants, Where long term credits were a vital necessity, the German manufacturers could not do business direct except as they were in special cases aided by banks." (pp. 328-9)

[†] This remark holds good of the share or stockholders of a modern joint stock corporation; but not so of the debenture holders, who, though lending their capital to the concern for a long term, still remain creditors only; and expect their capital to be returned at a given time. The distinction between share and debenture capital, or between fixed and renewable investment, has yet to be appreciated by the industrial financiers in India, such as they are. A study of the Company flotation boom which succeeded the war leaves one extremely doubtful if the promoter and his supporters at all understand the principles that should govern the allocation of the capital required in a large Industrial concern to ordinary stock, deferred or preferred stock, debentures and other bonds, bank overdrafts and credits. Without such an understanding, overcapitalisation is bound to be one of the defects of industrial finance with the consequence of a needless dissipation of profits when they are earned, when it is not needless failures. There is very little debenture stock in the Indian concerns, though there is quite a good proportion of it in the non—Indian concerns working in India as shown in previous chapter.

[‡] Of course the possibility of sale on a stock exchange, and recovery of the investment thereby is to be excluded from the above remark.

This capital would thus be locked up for the life-time of the concern. The latter capital, however, needed and invested in day-to-day outlay may also be defrayed from borrowed funds; but the borrowing in this instance need not be quite of that permanent nature as is required for the fixed or permanent investment. It depends, indeed, on the nature of each industry and its market to say how frequently the circulating capital in it would turn over; but in any case even this investment would have to be for a period much longer than that needed to assist the mere exchange of commodities.

It is this last description of financing which may be termed, strictly speaking, as commercial finance proper. It is not involved in any process of production, as even the circulating capital needed in a producing industrial establishment would be. It is called for simply to accommodate the buyer and seller of goods, the buyer until he is able to dispose of them and pay for them, the seller in order that he may repeat the process which enabled him to sell. Commercial credit may thus be compendiously defined as short term finance:

> "Credit is a sale, purchase, exchange, loan or other transaction, in which the delivery of a merchandise and the payment of the price, the rendering of a service and its remuneration, the advance of capital and its repayment *are separated by an interval of time.* In other words credit is an affair which begins in the present and ends in the future. x x x x Whatever may be the differences which mark different species of credit, they have this in common that the act which terminates the transaction is separated by time from the act which begins it." *

Industrial finance, in the sense of finding the whole of the immense amounts required for permanent investment as well as of working capital, by means of a just adjustment between borrowed and proprietors' capital, and their various claims to a share in the profits, is a thing of yesterday, relatively speaking. The present-day scale and organisation of industry is itself quite new. But the greater risk and longer investment necessarily involved in industrial financing may also explain in part its later origin and lower popularity. The share and the debenture and the bond have yet to acquire, at least in countries like India, that ready negotiability and easy transferability, that habitual familiarity and constant dealing, which alone can rescue industrial finance from the somewhat unpleasant sense of mystery with which it is surrounded. † Commercial credit, however, by the

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*Block, *Les Progre's de la Science Economique* I, P, 481, quoted in Conant: *Principles of banking P. 5.*

† Even in Britain the creation of a new type of negotiable instrument by an industrial Corporation was not by law recognised till only the other day. Cp. Edelstein V. Schuler 1902, 2 K. B. 144; Easton V. London Joint Stock Bank 34, Ch. Div. 95: Bechuana Land Exploration Company V. London Trading Bank. (1898, 2 2. B. 658) London Joint Stock Bank V. Simmonds 1892 A. C. 201. In India the shares are almost always in the nature of inscribed stock, and so also, generally speaking, debenture stock. Industrial financiers here have yet to

very shortness of its investment not to mention the excellent security which by law and usage has been associated with it, has been popular and extensively dealt in from the earliest days; and is even now more important both in the number of persons and institutions affected by it* as well as by the volume of business effected by it. Industrial credit, such as it is, is better than agricultural credit; in this that though industrial, like agricultural, finance requires long term investment, the latter is in most countries even to-day hampered by the relative smallness of the scale of its operations, and therefore the extremely limited amount of its profits. Again, we have yet to evolve the share or the debenture of an agricultural property. The most ancient and important industry has still to be endowed with negotiability. We can have a debenture bond to bearer, secured on the property of a great industrial concern, like the Tata Iron and Steel Company Ltd., though every one knows that the fraction of this property securing a given debenture cannot possibly be moved and transferred from hand to hand to make good the claim of the debenture-holder. Why, then, can we not have a similar instrument for a fictitious, but convenient transferring of agricultural property, to develop more fully that property itself. India at least has still to learn the A B C of Land Credit.

Commercial credit is better—or at least commercial financing is more fully understood—than either industrial or agricultural credit. That is why credit institutions par excellence—the Banks—have been most intimately associated from their origin with commercial financing only, as is evidenced from this definition of a bank by a great authority: *

> "A bank may be described, in general terms, as an establishment which makes to individuals such advances of money or other means of payment as may be required and safely made, and to which individuals intrust money or the means of payment, when not required by them for use."

We are not concerned here with the question as to how the banker himself finds the funds that he is willing and able, on consideration, to loan out; and so we need not consider the latter part of this description, which relates to deposits banking. Concentrating ourselves only on the loaning side of a bank's activities, we find that the requirement of safety in lending,—which was the more intensified in that the bank itself was dealing in other people's money, thanks to the growth of deposits banking,—compelled the banks to concentrate more and more the short term commercial finance. Rapid turn over brought them large profits even at a low rate of interest. Even though the ultimate security and profit of a

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(continued from p. 205.)

realise the utility of Bearer bonds for their day to day circulating capital—something analogous to the Treasury Bills of the Government. For a fuller study of and suggestions on Industrial Finance in India cp. *Indian Currency Exchange and Banking* by K. T. Shah P. 381 et. seq:

* Dunbar: *Theory and History of Banking*, p. 9.

series of credit transactions might be found in some industrial operations, industrial finance as such was almost morbidly avoided by the orthodox banker so popular and peculiar to Britain. Says Coquelin. *

> "In all countries the greatest number of acts of credit is consummated within the circle of industrial relations that is, from worker to worker, and from merchant to merchant. The producer of raw material advances it to the manufacturer who is to work it up, and accepts from him an obligation payable on time. The latter, after having performed the process belonging to him, in his turn hands over this material thus advanced on the same terms to some other manufacturer who is to subject it to a new process. Credit thus extends from one to another upto the consumer."

But even if this has been the original and motive force of the evolution of credit, in its subsequent development, and wherever modern industrial organisation has asserted itself, credit has become almost entirely commercial.

> "The first bankers had probably little thought of affording encouragement or applying a stimulus to the industry of the community as a whole. When they began, however, to led ntheir money systematically to merchants or the producers of goods, they began to give command of capital in the enterprises where, for the time being, it was most called for and presumably most needed. When they increased their loans of this sort, by means of the funds left temporarily in their care by persons depositing with them, they began to give to industry the benefit of the capital which would otherwise have remained idle, or to secure more speedy application of capital slowly seeking employment, x x x x Their practice of discounting the bills received by dealers from their customers tended to a rapid organisation of credit ; and, by giving the dealer the immediate use of that which was due to him at some time in the future, shortened the period required for 'turning his money' and undertaking some fresh enterprise.†

This extension of the benefits of credit organisation to industry proper is, however, quite indirect and somewhat inconsequential. As already observed, the real creation of industrial credit, or industrial financing proper, required at the very start of a large scale modern industry, is essentially and materially different in its conception and operation from the credit development described above. The interposition of credit—which constitutes what we here understand as commercial finance proper, takes place, even when it is concerned with some industry, at the point where the process of production terminates and that of exchange commences. Credit institutions of the type exemplified by modern leading banks do not as a rule deal largely in industrial credit proper.‡ But in the process of exchange, the slight

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* *Cre'dit et les Banques,* p. 60.

† Dunbar's *Theory and Practice of Banking,* p. 4.

‡ Says Mr. Wolfe: "The remarkable extentto which German industries were carried on by the use of credit was largely based on the participation of the great banks in a very great number of industrial enterprises. German banks were represented on the boards of directors in numerous undertakings of the most varied character throughout the Empire, giving them special support in their credit transactions. The sphere of activity of the

element of time required provides that ideal condition, combining security with profitability, which furnishes the orthodox banking institutions with the largest part of their business. In commercial finance proper there is this great peculiarity that while in ordinary bank operations, different from commercial financing, credit is based solely on the standing of the person to whom credit is granted, credit in connection with documentary draft finds its material basis in the shipment against which the seller draws on the buyer. The advance made on a draft of this nature in Germany used to be, before the War from 50 to 90 per cent. of the amount of the invoice, according to the standing and relations of the parties with the banks. It averaged between 65 and 70 per cent. while in Britain it goes up to as much as 95 per cent.* The smaller the amount advanced the greater the security of the bank. The latter usually retains a lien on the goods which it can dispose of to indemnify itself in the event of trouble with the drawee. As will be explained more fully below, where the documents of title to the goods, which form the ultimate security for the advance, are to be made over to the drawee only on payment (the so-called D/P. drafts) the Bank would of course be most fully secured. But when, as often happens, they have to be turned over on acceptance, the latter replaces the goods, by way of security to the bank.† But the best security for such a transaction to the bank—one on which that body usually relies—is the financial stability of the drawer, or the party to whom an advance is made. In case of trouble with the drawee, recourse is first made to the drawer; and it is only when that party fails to give satisfaction that the ultimate security of the goods is utilised to indemnify the bank.

LXV. METHODS AND PECULIARITIES OF THE INDIAN TRADE FINANCE.

After this brief outline of the general characteristics and principles governing commercial finance, we may now proceed to examine the nature

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(continued from p. 207.)

German banks was much more extensive than that of either the American or the English banks, and they assisted their clients not only by granting credit, but also by discounting their long bills, granting loans and advances on raw material, shipments of manufactured goods &c., opening or confirming commercial credits as required, guaranteeing prompt fulfillment of contracts" etc. Op. cit., p. 320–30. See, also Dr. J. Riesser's "*The German Great Banks and Their Concentration*, op. 11p. 229 et seq. in the *National Monetary Commission* of the U. S. A.

* Wolfe *Theory and Practice of International Commerce*, p. 316.

† Some Sections (13 to 16) of the Federal Reserve Act in the U. S. A. confine the credit facilities available under the new Scheme to genuine trade bills *i. e.* bills "which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods, provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by warehouse receipts or other such document conveying or securing title covering readily marketable staple." (S. 13). If the intention of this section could be realised a good deal of the speculative element of the modern commercial financing would be eliminated.

and character of that finance in India. The principle of a negotiable instrument was understood and acted upon in this country long before the now familiar bill of exchange was patented by Europe. *Hoondies* or the Indian bills of exchange embodying, in their various forms, every usance of that document from the purely accommodation bills of the money-lender to the specifically secured and excellent trade bills so largely handled by the *shroff* or indigenous banker, are an ingredient in commercial financing even now-a-days at least as important as the more standard form of a Bill of Exchange. Between them they manage practically the entire financing of the trade of India. We shall describe in some detail below the principal forms of the instrument of commercial credit in vogue in India and elsewhere. Here we need discuss only the peculiarities of that financing; and the first that strikes the eye in any careful study is the undue attention paid to the convenience of the foreign trade as contrasted with the domestic trade, in spite of the greater volume of the latter, as well as its more immediate effect upon the prosperity of the masses. To give but one illustration of this peculiarity. The whole system of our currency has been based and altered and overhauled several times entirely and exclusively in the interests of the foreign trade, in spite of the obvious hardships if not injustice of such frequent changes upon the people of India. The excuse of the convenience to the foreign trader was no doubt modified or disguised in part by the foreign commitments of the Government of India, which necessarily influenced and affected exchanges. But that the requirements of foreign trade were not and could not be overlooked can be evidenced by this just one instance of the sale of Council Bills, its method and amount and all the accessory parapharnalia of cash balances and reserve manipulation in and outside India.* The Council Bills hail originally from the days when the British government of India was in the hands of a commercial corporation; they originated from the needs of that body to remit their trading profits to England or vice versa in the event of losses. Though the old commercial corporation has ceased, its spirit seems still to haunt the doings of the present government. Its so-called Home charges, aggregating over 50 crores per annum, are paid for by means of Bills drawn by the Home authorities,—now the Secretary of State for India in Council, and hence the name of Council Bills—upon the Government of India. The payment for these bills is received in gold in Britain, and the orders are honoured in rupees in India. If the Council Bill sales were confined only to the needs of the Home Treasury of the Government of India,—both by way of revenue and capital charges—there could be no great harm done. But when as it became the practice since 1904, Government sold Bills over and above the Home charges right up to the full demand of the trade, and at a fixed rate, two consequences followed which were morally, if not legally, binding upon them. Commercial interests came to regard the practically fixed rate of exchange as a certainty, a government obligation; and they considered the practice of unlimited Council Bill sales as creating a prescriptive right to its continuance, no matter whether or not Government on their own account needed to engage in such movements of funds. Neither of these obligations was quite fully appreciated in all its implications by Government. The authoritative, if not the official, pronouncement of the Chamberlain Commission deprecated any predetermined limitation of the sales of Council Bills as "arbitrary and unnecessary," though it was recognised that "the interests of trade are in themselves no justification for sales of council drafts in excess of requirements as we have defined them."* Since that Report, Government acted as if they considered the interest of trade finance as predominating; but when their own commitments caused embarrassment they promptly disowned the obligation. In the war period the council sales came to be restricted; and, owing to the fiasco consequent upon the ill-advised change in 1910, they were altogether suspended till the beginning of 1923. The other implied obligation of the artificial currency system created after 1893, viz., that the rate of exchange between the pound sterling and the rupee would be maintained at a fixed level between two clearly defined specie points was far more serious; and yet it was disowned with as much alacrity the moment it became inconvenient or improfitable to the Government to accept it. No Jew or Marwari could have shown a more pitiful spirit of profiteering than the Government of India have displayed in their currency vacillations. But we are not here concerned with the effect of such action upon public credit, though that is bad beyond words. What we are particularly concerned with here is the consequences to commerce. Every body knew between 1899 and 1915 that the rupee valued at 16d was intrinsically worth less than 10d. Government was obviously making a profit of 40 per cent. But everybody accepted it in the assurance and belief that, should it be necessary, Government had both the will and the means to make good this rate. When, however, Government broke faith and disowned this obligation, commerce necessarily suffered enormously; and it is of no avail to put up a special pleading that

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*"It will be seen" wrote the Chamberlain Commission in 1914 (para 176 of the Report) "that the considerations affecting council drafts are now very much wider than the mere question of laying down in London the funds required for ordinary home charges. The transfer to London from the Government of India's balances of some £ 20,000,000 annually for the home charges on revenue account and of some £ 6,000,000 or more to meet capital expenditure remains the chief function of the sale of council drafts; but if the expense and waste involved in the shipment of sovereigns from India to London on Government account is to be avoided, it is necessary for the Secretary of State to sell sufficient drafts, not merely to meet his own requirements on revenue and capital account but also to satisfy the demands of trade upto such an amount as will enable the balance of trade in India's favour over and above the amount of the home charges on revenue and capital account to be settled without the export to India on private account of more gold than is actually required in India for absorption by the public." The policy underlying this recommendation was continued all through the period following, and Council Bills sold without limit, until the exigencies of the war rendered the operation unprofitable enough to demand a flagrant breach of faith from the Government of India. The aftermath of peace still continues to keep the Indo-British Exchange mechanism as disordered and complicated as ever.

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* Cp. *Indian Currency, Exchange and Banking*, by the present writer p. 76. Chapter III is crystallised in the argument here.

> "for the current operations of trade, stability of exchange is an important facility rather than an essential condition." *

As already observed, we are not concerned here with the effects of these tactics upon the credit of the Government. But we must point out that in the Indian eyes, not only the entire system of our currency has been tampered with more than once at the instance and for the benefit of the foreign trader; but its continuance in spirit, if not always in fact, for the last 30 years has resulted in India being prevented from getting her fair share of gold; and from attracting to and accumulating within the country the natural surplus from her foreign trade, thereby depriving the industry as well as the commerce of the country with their necessary "sinews of war."

If this reference to the vicissitudes of the Indian currency system is not sufficient to prove that undue attention is paid in the commercial finance of India to the needs of foreign commerce, we might cite the organisation of banks in India as another piece of evidence for the same charge. The Imperial Bank of India was instituted in the hope and belief that such an organisation, under the control and influence of the state, would materially aid in the industrial and commercial development of India, has no industrial section attached, and is specifically excluded from engaging in the business of Foreign Exchanges. Though debarred from the management and control of the various reserves in connection with our currency organisation, the Imperial Bank still enjoys a considerable amount of Government business, which makes it the more surprising why no industrial section to this great state financing institution be appended. We can understand the risks incidental upon industrial financing. But

> "as things stand at present, and if the present traditions of the management of the Imperial Bank get time to crystallise into conventions, there is no danger for the Imperial Bank to incur the charges urged against the German banks of an excessive favour shown to industry and foreign commerce."†

In the case of foreign exchange business, it is a noteworthy fact that at present practically the whole of India's foreign trade financing is done by foreign banks, who thus levy a very considerable tribute from India on that account. ‡ The German trade, when it began to flourish under the

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* Babington-Smith (Indian Currency) Committee Report quoted in *Indian Currency, Exchange and Banking* p. 274. The fact that for the first time within memory the trade of India showed a large adverse balance immediately after the disastrous experiments were tried is a sufficient commentary upon the crudeness of this proposition.

† *Indian Currency, Exchange and Banking* p. 335.

‡ No authoritative estimate of this tribute has ever been made; but the following considerations are offered for what they are worth. The total inward and outward trade of India is about 600 crores, including stores and specie. Assuming that the whole of this is financed by foreign banks, and that the normal Indian rate of discount is 4 p. c. on an average of usance for 3 months, the banks would be levying a tax of 1 p. c. on the total volume of our trade; and the drain in that respect would thus equal 6 crores.

aegis of a determined and national government, soon discovered the value of a *pari pasu* development of German banking, if a needless tribute to the foreign banker was avoided. The great German banks with their remarkable progress[*] between 1880–1914 were the consequence.[*] We in India have the unique distinction of having a central bank of our own, with a foreign branch of that institution; and yet not doing anything to finance our own foreign trade. It may be a mystery of *la haute politique* imperceptible to a mere Indian as to why the Bank should not have been entrusted with the management of the currency reserves both in India and in England, as well as the manipulation of the body and volume on currency in this country. It may be a secret of statecraft as to why the privilege of the Bank of England to float and manage the sterling loans of India should not be handed over to the London Branch of the Imperial Bank. But in the domain of merely trade financing, even a mere Indian might be permitted to hazard an explanation for the paradoxical prohibition on Exchange business, by a Government which has the most intimate interest in exchange manipulation.

Two possible alternative or concurrent explanations may be offered. Exchange business is risky, and unprecedented for a State Bank and hence the exclusion of the Imperial Bank from that business. And, if the Imperial Bank should engage in the exchange business, the other foreign Banks would suffer, would combine to retaliate and would possibly endanger the success of the Imperial Bank. Neither of these arguments is worth the paper on which it might be written—at least in the form in which it is usually paraded as an excuse for a paradox that is really a contradiction in terms. Each, however, conceals a real reason to the Government which may not sound very creditable or loyal to the people of India, but which is not the less true for that reason. For, as regards the first, the alleged riskyness of the exchange business could only be accepted, if we admit the implication that exchange necessarily fluctuates within very large limits. It may, indeed be conceded that the principal state banks in the world did not directly enter in the exchange business, even when that business was much more stable; though in making this concession we must remember that the Austro-Hungarian State Bank practically maintained the gold exchange standard of the Dual Monarchy before the war by entering largely in the Foreign Exchange business, and that the Russian State Bank also did the same. Granting, for the sake of argument, that the best example of state banks showed a commendable caution in the more normal pre-war times, in avoiding direct dealings in foreign exchanges, we must not overlook their indirect but none the less effective powers of control over the business. By a sudden sharp rise in its discount rate the Bank of England, or the Reisch Bank of Germany, could easily and effectively redress any inconvenient temporary aberration of exchanges. The Imperial Bank of India, being specifically excluded from the Foreign Exchange business, is prevented from conferring the one great boon it should have conferred by giving a moral guarantee of exchange stability, implied by its own participation in it. Government do not seem to have realised that by specifically excluding their own bank from this business they are needlessly inviting a suspicion about their intentions in regard to the future of Indian currency and exchange. They hold all the cards in the game, and they would not place a single one on the table. The result is unavoidable. Government is naturally suspected by the Indian commercial community of unpleasant intentions. Will the rupee be stabilised ? Or, in the alternative, will an honest gold standard be introduced in India ? On both these vital questions Government choose to pose as the attitude of the sphinx; and yet suffer their secret to leak out by such devices as the exclusion of the Imperial Bank from the Exchange business or currency manipulation. Why exclude the Imperial Bank from a really profitable and essential business, which has a vital bearing on Government to own finances, if there were no intentions to try fresh experiments in exchange regulation ? But the abnormal conditions of 1919–20, exchange, even if not regulated, could not vary so largely as to be a danger to such a corporation as the Imperial Bank of India, with all its command over public and semi-public deposits. If it had all the business in India as well as in England that it could legitimately aspire to, it could not only find at both ends all the funds normally needed to do exchange business; but—and this is much more important—by its mere presence in the exchange market it could inspire much more confidence and so bring about a greater stability of exchanges.* The Bank, we know, is not entrusted with the manipulation of the volume of currency in India, except that under the latest legislation extra currency notes to the amount of 5 crores might be issued in busy seasons, at the instance of the Imperial Bank and on the security of good trade bills for which the Bank is also responsible. But on these notes the Government charge an interest at a prohibitive rate—8 p.c.—which even not the most hardened money-lender dares openly demand from such a borrower as the Imperial Bank on such a security as the latter has to offer. The Bank, of course, would not avail itself of this privilege (?) unless it was certain to recoup it by charging a still higher rate to its own constituents—a margin in favour of the Bank of, let us say, 1 per cent. But such an action would levy a most unwarrantable tax upon commerce, and, indirectly, also upon the industry of India. Government, however, seems to be utterly impenitent in this respect as seen from the most recent official pronouncements.† The absence of any power to control the volume of currency prevents the Imperial Bank from getting any control, by its discount rate, on banking credit, and so ultimately on the commercial financing *in toto*. But in either case, unless the Government of India had indefensible intentions of their own, we do not see why an early pronouncement should not be made on the subject.

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[*] Cp. Dr. J. Riesser op. cit. in the American *National Monetary Commission.* See also A. J. Wolfe op. cit. pp. 300 et seq.

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* Even as it is the Bank does do a little exchange business in cases where it is acting as administrator for winding up an estate, as well as for the personal needs of its own constituents. The amount of this business is of course very negligible in comparison to the total volume of business.

† The Finance Minister, Sir Basil Blackett, visiting the Indian Merchants' Chamber in April 1923 was pointedly informed of this feature of our money market but had no reply to make by way of an assurance of relief or remedy.

What the Imperial Bank of India is excluded by law from attempting, it would be a hardihood of a remarkable type for any private Indian Bank to attempt. Indian Banks, with one or two exceptions, give a wide berth to all propositions for foreign trade financing, of which the so called exchange banks thus obtain a practical monopoly. Were exchange left utterly free to adjust itself by bona fide trade conditions, were the Government of India utterly exonerated from all suspicion of seeking to manipulate the exchange policy to suit their own ends and against the interests of the country, there would be nothing particularly objectionable in advising an Indian bank to try a hand at it. It is true the Indian Banks, which, like the Tata Industrial Bank, have dared to infringe upon the monopoly of the exchange banks are reported to have burnt their fingers very badly by the jealousy of a powerful and resentful vested interests. But though actual experience of the exchange business, such as it is, does not warrant the belief of its proving very remunerative; it must not be forgotten that the experiments, like that of the Tata Industrial Bank, were tried under most abnormal circumstances; and that, therefore, that experience must be taken rather as a standard of the strength and staying power required of the Indian banks that would engage in a race with the exchange banks, than as a final corker to any thought of a struggle at all. Normally, and if the Government of India did not needlessly complicate the problem by its indefensible amateur interference, every Indian bank engaging in such business could save a considerable amount of the tribune now exacted for this service by the foreign banker, and at the same time guard itself against needless risk by doing rediscount business on a more considerable scale than is the practice to-day, and also by a more scientific use of hedging. "If, therefore, one feels any hesitation at all in advocating that the Indian banks proper should take up energetically, and with determination, to see through the exchange business and foreign trade financing, it is simply and solely on account of just one "dark horse"—Government action in the matter. It is impossible to understand why the Government of India should adopt this dog-in-the-manger policy of not allowing their own State Bank to engage in the exchange business and also, indirectly at least, preventing the independent Indian banks from taking up the challenge—and it is still more impossible to defend this policy. The professed excuse is imaginary. The real one is a crime against India.

And this brings us to the second of the reasons alleged in support of the exclusion of the Imperial Bank from financing the foreign trade of

India. The Exchange Banks have claimed a sort of prescriptive monopoly of this business. The Government of India lacks the courage,—to put it at no worse,—to give a flat denial of such a preposterous claim. They, therefore, seek to exculpate themselves by alleging, or prompting the spokesmen of the Exchange Banks to allege, that should the Imperial Bank of India venture upon the sacred preserves of the Exchange Banks, it would treat it as poacher and deal with accordingly. But what is the extreme limit of the resentment of the Exchange Banks, assuming they would and could act the high-handed squire to the poacher of the Imperial Bank ? In the cornering of the exchange market, they could not possibly venture against the Imperial Bank for their own sakes, simply because the Government of India is in honour bound to see the Imperial Bank through under any eventuality. The Imperial Bank has the disposal of the cash balances in India of the Government of India; and the Imperial Bank is the only body that could-at pinch-demand and obtain that accession to the money market which may be afforded by the extra issue of currency notes on the security of commercial paper. And the exchange banks in India are themselves too dependent upon the Imperial Bank for financial relief in seasons of extreme tightness in the money-market which coincide with the seasons of brisk export trade to dare to try a fall with the Imperial Bank. They have been heard to say that, in the event of the Imperial Bank entering actively and extensively in the exchange market, *their* deposits with the Imperial Bank would be drawn. The threat sounds too theatrical to be carried out. But even if, against all probabilities, such a step was ventured upon, what is the utmost that the Imperial Bank need apprehend from such a move? The total deposits with the Imperial Bank were, as on 30th June 1922, Rs. 16.72 crores on Government account and Rs. 63.66 crores on other accounts. The total deposits of all the Exchange Banks operating in India aggregate some 120 crores in this country; and assuming they keep 20 per cent. of these with the Imperial Bank—a very liberal estimate—they could not deplete the Imperial Bank deposits by more than 24 crores if they withdraw *in toto*. This cannot materially hurt the Imperial Bank; but what a cost to the Exchange Banks. I believe too much in the innate shrewdness and business acumen of Scotchmen—who almost to a man manage the Exchange Banks offices in India—to think it ever likely that they would deliberately invite a catastrophe by provoking the Imperial Bank to retaliate.

Summing up then the argument in this section we find, that an undue and disproportionately great attention is paid to foreign commerce in the financial arrangements; that inland trade in consequence meets with a step-motherly treatment in the currency organisation and remittance facilities;* that even in the case of financing the foreign commerce of the country, the Indian banks are needlessly impeded by senseless restrictions coupled with the uncertainties of the Government intentions on exchange policy; and that in consequence a heavy annual tribute is exacted from this country by foreign banks.

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* Inland remittances practically free of charge are now possible in India for constituents of the Imperial Bank but we have still to travel a long way before India could be said to have abolished altogether the charge for inland remittance. And, of course, for banking or financial facilities to the inland trader, they are the most rudimentary. The nearest

LXVI. INSTRUMENTS OF TRADE OF FINANCING.

Ordinarily speaking, not much importance would or need be attached to the instruments for financing commercial transactions. But in India sufficient attention does not seem to have been paid to the standardisation and simplification of the instruments which help to secure and render mobile commercial credit in European countries. There is, for example, a medley of indigenous bills, generally termed the Hoondies, with all their tangled variety of usages as to form and execution, endorsement and negotiating, discounting and payment etc., which it would be impossible to reproduce in facsimile in this book; and which it does not help the commercial interest to maintain in all its baffling complexity.* Standar-

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(Continued from p. 179).

approach the modern type of the Bank in India makes to the financing of the internal trade is by the discounting of the Shroff Bills. This rests purely on personal credit. The goods which may be behind these bills hardly ever come within the purview of the Bank; and the inland trade has thus to bear the heavy burden of the shroffs discount rate. It would do the banks in India—of Indian origin particularly,—no harm to revise their methods of business paying more particular attention to the financing of local trade in place of the modern practice—far more risky than exchange business in normal times, I should think-of financing mostly the stock exchange speculator by advances on fluctuating securities. It would not cure the root evil of Indian banking to adopt merely the routine precaution of fixing the margin of advances on listed securities, fully paid or otherwise, by order of a committee of Directors; or even to periodically revise it. Such a practice may provide an excellent opportunity for an unscrupulous or impecunious bank manager, who is bold enough occasionally to take the bit between his teeth or tactful enough to bamboozle the directors, to enrich himself at the expense of his constituents. Such cases would not be absolutely unknown, even in the short history of modern Indian banking if only the directors or constituents could muster up courage enough to expose the unscrupulous manager. But perhaps the directors themselves have an axe of their own to grind; and so would not be above an occasional "tip" from their own managers to turn an honest (?) penny. In any case such a policy, however profitable it may seem to be, is impossible to regard as laying the foundation of a sound banking system in India. For a fuller critique of the Indian banking system see the present writer's work on: *Indian Currency, Exchange and Banking.*

* Specimen copy of a most common form of a *Hoondie* payable to bearer is given below, with a translation as nearly as possible in English.

સ્વસ્તી શ્રી મુંબઈ બંદરે શુભ સ્થાને સરવે ઉપમા
જોગ શ્રી પ...
જોગ શ્રી.................લી..............................
ના રામ રામ વાંચજો જત અમેથી રાખ્યા શા...... ...
......................પાસેથી રૂા. ૫૦૦૦) અંકે પાંચ હજાર
રૂા લીધા છે તે આ હુંડી પોહોચ્યા પછી મુદત દીન...
......અંકે કેડે દેજો નામે શાહ જોગ ગરવે ઠામ ઠેકાણું
જોઈ તપાસી ચોકસી કરી દેજો. નિશાની એજે કાગળ
મધે લખીશું. (હમારે ખાતે ઉધારજો) સંવત ૧૯૭૯ ના
ચઈતર વદ ૬ વાર શનેઉ તા. ૭ એપ્રિલ ૧૯૨૩.

TRANSLATION.

Hail to the deserving of every good comparison Messrs.........at the good place, Bombay...............from.....................write Messrs..................from whom greetings.

Item we have here this day received from Messrs..................Rs. 5,000 (five thousand) in full; which you are to pay to bearer hereof after.........days, in number.........days; and be careful about the name, address and standing of the payee. Our agreed sign is that we shall write to you in our letter. Debit the amount to our account. Dated the 6th day of the dark half in the month of Chaiter in the Samvat year 1979. (April 7th 1923).

disation and simplification, of our native negotiable instruments however, has not attracted the attention they deserve, probably because, as already noticed, the needs of inland trade do not receive any attention at all from the parties that count. The bulk of commercial finance is managed by instruments of the usual English type, and attended by the usual English practice. A specimen Bill is attached, as also the usual letter of authorisation to the Bank conveying or securing title to the Bank in the goods forming subject matter of the Bill.† In the case of the bills—or drafts as they are called—figuring in the Foreign Trade of India the documents usually accompanying the draft are:—The Bill of Lading, the Insurance Policy covering the goods, and the Invoice. I am unable to obtain particulars, in spite of inquiries, as to the relative strength of commercial practice between the D/P Bills (Documents attached to the Bill being surrenderable to the drawee only on payment by the latter of the Bill) and D/A Bills (Documents being surrendered on the bill being accepted) in India; nor could I ascertain the general level of advances against the invoiced price of the exported goods. The utmost one can say is that the amount of the draft permitted against the invoice varies according to the nature of the goods as well as of the standing of the parties. The one rule, however, which seems to be most commonly followed, is that no draft will be taken by the Banks, unless, along with the bill of lading and the invoice, there is an insurance policy. Uninsured goods may not, according to the Indian banking practice, be drawn against; or if so drawn, the banks would not handle such a paper.

To show, however, how far a proper, scientific attention to the instruments of commercial finance could achieve in the way of facilitating and encouraging trade movements, let us examine the German practice, which by 1914, was on all accounts the most perfect and admirable system in the world. As an illustration of their thoroughness, the following would compare quite well with any other that could be named.*

It will lead us too far beyond our field to discuss all the material terms in this document, legally and financially. Suffice it, that, in appearance, it is an accommodation bill payable to bearer (*Shahjog*) after a certain number of days after date.

SHREE LUXMI.

Rs. 1000 Due.......................1923.

Bombay 1st May 1923.

Stamp.

.........Days after date............ promise to pay to..................
or Order the sum of one thousand rupees for value received in cash this day.

(Signature)..

Address..

Brokers.

* A. J. Wolfe. *Theory and Practice of International Commerce* p. 309. The following account of the German technique in commercial financing is taken from the same source.

> "In the days when the rupee was an uncertain quantity, the German exporter was accustomed to take out an exchange insurance to protect himself against a possible loss. This insurance was effected by the English banks with Indian branches. The European offices of these banks paid the German exporter in gold. The important position of the rupee in the German-Indian trade relations was due to the fact that the banks would not undertake to insure the native Indian buyer against exchange fluctuation, but were willing to extend this accommodation to the German, and, on the other hand, figuring in rupees was an easier matter for the native customers. This desire to avoid figuring and calculating has brought about the so-called all-round rates, which we might call "laid-down rates," forming a price including transport and insurance, landing and customs charges, exporter's profit, and the commission of two brokers, the selling commission of the buyer in India, and the discount he would have to grant to his own customer. The willingness of the Germans to meet the needs of their customers abroad is exemplified in this laborious price calculation for the benefit of the native Indians. It was certainly one of the many causes of the growth of the German trade."

Leaving aside the system of "open credits" granted by banks to approved customers to finance their deals as relatively unimportant in financing the foreign trade, and confining ourselves to drafts against exports, the usual German practice was to draw at a certain period after sight. Except in some countries of South America, the documents relating to the draft are forwarded, not directly to the buyer of German goods, but to a third party like a bank or a forwarding agency—the latter presenting them for acceptance on arrival of the goods. The period during which credit was granted to the foreign customer, i.e. the time after which the draft became payable, varied according to the status of the buyer, the nature of the goods and a host of other circumstances. The German banks, when they developed, readily and largely discounted these drafts.* The intervention of the banks relieved the exporter—the German manufacturer, though he tried hard, never got a direct footing in the foreign trade—and yet afforded the required credit to the foreign customer, since the usual German practice was to have drafts D-A.† Where the customer wanted time to dispose of his purchases by sample, the banks maintained godowns for warehousing the goods until the draft was paid for, and documents required to be handed over; and if the standing of the foreign customer was satisfactory, the German banks were prepared to renew the drafts, even after the original period had expired. To avoid the complications of differences in currencies, the usual custom in Germany was to draw in terms of sterling, though in latter day commerce the German mark came to occupy as important a place as the pound sterling. Dealings in agreed currencies—neither marks nor sterling—were also not unknown, but the practice was not uniform. Except in South America, where the customer of the German exporter had to buy remittances in open market to meet the draft upon him, the German exporter could almost always command the services of banks to secure the remittance of payment to him, whether by cable transfer avoiding loss of interest, or by another bill; but the exporter in every case was careful enough to calculate in advance every item of loss to him and take measures to indemnify himself against it. Thus in the case of drafts on Africa or Australia the clause was added: "payable with exchange for negotiating bills on colonies and all stamp duties;" or: "payable with interest at—per cent. per annum added thereto from the date hereof to approximate date of arrival of remittance" in Hamburg or London. Rebate, however, was allowed to any drawee who had to meet D/P drafts if he paid before the draft was due. But this was a matter between the drawee and the banks in which the drawer had no say The drawee usually paid the local bank holding the documents at the current rate of exchange, and the latter then sent their own cheque or bill (at varying periods) by way of remittance to the German exporter through its head office in Europe. Once more the bank discounted the instrument if it was a time draft. The costs of collecting the drafts—including commission, postage and revenue stamps—were standardised and published by the banks, and varied from 1/8 % to 2 %—1/4 % to 1% being the most usual, subject to a flat minimum varying from 1 to 7½ marks. If the draft was not honoured at maturity, all the charges of collection, together with protesting and other expenses, were borne by the exporter, though in some special cases the banks bore 50 per cent. of the collection charges. The exporter, however, seldom waited for his payment—and thus rarely allowed his capital to be tied up until he received in Europe the payment for his goods. The banks were willing either to advance on the drafts to the extent of 90 p.c. of its face value, getting at the same time a lien on goods against which the draft is made, or to discount them.[*] The legal as well as the practical position is slightly different. In the former case the exporter gets much less, and so a part of his capital will still have to be locked up. He is also principally and primarily liable to the banker making the advance. In the latter case the bank itself becomes the proprietor of the draft, whose full value—less discount—is paid to the exporter ; and the primary liability would be that of the drawee. German banks engaging in this business were not very keen on the second alternative, though when they did engage in it they regarded it as a profitable investment for their own spare funds. The English practice favours the latter.

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* Cp. Riesser Op. cit. for the charges against the large German banks for engaging too much in foreign trade financing.

† Wolfe. Op. cit. p. 303.

This brief review of the German financing of foreign trade may be completed by a quotation from the authority from whom the preceding account has been abridged.

> " In the course of 30 or 35 years before the war the increase of German exporters, the rise of German foreign banks, and Hamburg private banks

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[*] "In addition to advances on drafts, the German banks made advances on *documents alone*, mostly in the case of consignments sent by German exporters to their branches oversea. The goods are practically mortgaged to the bank, which obtains a letter of lien from the consignee, forming the bank's security in place of acceptance, and the consignee keeps a separate account for these goods, being bound to turn over the proceeds to the bank as soon as received." Wolfe. Op. cit. p. 317.

> and merchant bankers, but most of all the opening of London branches of German banks admitting German commerce to the London money-market, brought about increased credit facilities to the German exporter. The German banks doing a foreign business were to a slight degree givers of personal credit to German exporters. Their activity was mostly limited to the negotiation of documantarily secured transactions with oversea markets. But the so-called great German banks, x x x undertook the problem of granting personal credit to the exporter."*

This last was granted in two forms—current account credits and acceptances, the latter being given by the bank stamping its own acceptance on the expórter's draft and thus improving its negotiability.

LXVII. INDIAN FINANCING INSTITUTIONS FOR OVERSEA TRADE.

As already observed the bulk of the financing of India's foreign commerce is done by the so-called Exchange Banks, which are mostly branches of foreign banks in India.† Their business principally consists of financing the foreign trade, as well as doing ordinary deposit banking. We are here concerned, however, with the commercial finance. Taking first the financing of our export trade:

Bills against the export trade are drawn D-A (documents on acceptance) and D-P (documents on payment). They are purchased by the banks' branches in India. The D-P bills are held by their London offices until they are retired or paid at maturity. The D-A bills as a general rule are discounted, or rediscounted, immediately after acceptance. They are rediscounted, with the English Joint-Stock Banks, and the Scotch Bank, or with bill-brokers financed by these, and especially in times of stringency with the Bank of England. These bills may be held for a time by the Indian Exchange Banks in London. This would occur when business in India was stagnant or when money was difficult to employ in London. To the extent to which the D-A are rediscounted immediately after acceptance (which they are in the great majority of cases) the Indian export trade is financed not with the funds of the Exchange Banks, except from the time of the purchase of the bills in India to their arrival in London, but with the funds of the British Banks, *i.e.*, with British and not Indian capital.

Next with regard to the import trade. The Exchange Banks also finance the import trade through their London offices. Bills are drawn on the consignees D-A or D-P, in sterling for the most part, payable with interest from the dates of the Bills to the approximate dates of arrival of the remittances in London, by demand draft on London. These bills are never rediscounted. Thus the import trade, it will be seen, is financed to a much greater extent than the export trade with the funds of the Exchange Banks alone. The Exchange Banks' purchases of Indian export bills represent transfers of their funds to London. Their advances against import bills are the return of these funds. As exports normally exceed imports, the deficiency of import bills is made good by shipments of gold-coin and bullion and also silver bullion from London and elsewhere, and to a very small extent by transfers of Government Rupee Paper from London to India, and as regards the balance by purchases of Council Bills and Telegraphic Transfers. The last are freely resorted to when exports from India are at their height, and when it is to the Banks' interest to move their funds back to India in the shortest possible time. The Chartered Bank, for example, may buy on Wednesday these transfers and by the following day the Calcutta, Bombay, and Madras branches will find themselves in funds. This, in brief, is an outline of the Banks' exchange business proper.

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* Wolfe: Op. cit. p. 321.

† The Tata Industrial Bank is the only purely Indian institution doing exchange business on any considerable scale, and thus taking a share in financing the overseas trade of India. Even in this case opinion is by no means unanimous as to the wisdom of the practice. But the relative unpopularity of that institution in India to-day is rather due to the indifference or contempt of the Directorate to Indian sentiment on certain questions relating to the management of the Bank, and to the abandonment of the original object of the Bank to finance Indian industries, than to any inherent objection to dealing in exchanges. For a fuller critique of this institution see my work on *Indian Currency, Exchange and Banking* p. 365 et seq.

The following table of the assets and liabilities of the five leading Exchange Banks would give an idea of the extent to which they engage in financing India's foreign trade as well do the ordinary banking business. *

The subjoined table gives a general Statistical view of the banking business transacted by the five most important of these institutions.

LIABILITIES OF FIVE ANGLO-INDIAN BANKS.
DECEMBER 31, 1920.

LIABILITIES.	£	%
Chartered Bank of India, Australia and China.		
Paid up Capital. ...	3,000,000	
Reserve	3,500,000	
Total Capital and Reserve	6,500,000	9·2
Notes	2,837,818	4·0
Acceptances &c. ...	3,720,598	5·2
Deposits, &c. ...	57,164,727	80·6
Profit Balance ...	709,602	1·0
Total Liabilities. ...	70,932,745	
Eastern Bank.		
Paid up Capital ...	995,780	
Reserve	225,696	
Total Capital and Reserve	1,221,476	9.4
Notes		
Acceptances ...	696,915	5·3
Deposits, &c ...	11,010,684	84·4
Profit Balance ...	121,318	·9
Total Liabilities ...	13,050,388	
Mercantile Bank of India.		
Paid-up Capital ...	1,050,000	
Reserve	1,100,000	
Total Capital and Reserve	2,150,000	10·7
Notes	157,305	·8
Acceptances &c. ..	819,594	4·1
Deposits, &c. ...	16,819,241	83·4
Profit Balance ...	211,638	1·0
Total Liabilities ...	20,157,778	
National Bank of India.		
Paid-up Capital ...	2,000,000	
Reserve	2,300,000	

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* These tables have been taken from the *Indian Currency, Exchange and Banking* by present writer pp. 342-3

Liabilities.	£	%*
Total Capital and Reserve	4,300,000	7.8
Notes	...	...
Acceptances &c. ...	3,795,674	6·8
Deposits &c. ...	46,716,804	84·4
Profit Balance ...	539,032	1·0
Total Liabilities. ..	55,351,510	

P. & O. Banking Corporation.

Liabilities.	£	%*
Paid-up Capital ...	2,500,000	
Reserve	...	...
Total Capital and Reserve	2,500,000	40·7
Notes	...	...
Acceptances &c. ...	744,157	12·1
Deposits, &c. ...	2,822,391	46·0
Profit Balance ...	73,294	1·
Total Liabilities. ...	6,139,842	

ASSETS OF FIVE ANGLO-INDIAN BANKS.
DECEMBER 3, 1920.

Assets.

Chartered Bank of India, Australia and China.

	£	%*
Cash	11,126,379	15·7
Investments ...	4,886,091	6·9
Bills Discounted, Advances, &c. ...	50,588,861	71·3
Customer's Liability for Acceptances, &c. ...	3,720,598	5·2
Bank Premises &c.	610,816	·9
Total Assets ...	70,932,745	

Eastern Bank.

	£	%*
Cash	3,120,441	23·9
Investments ...	487,678	3·7
Bills Discounted, Advances, &c. ...	8,704,259	66·7
Customer's Liability for Acceptances, &c. ...	696,915	5·4
Bank Premises &c.	41,095	·3
Total Assets ...	13,050,388	

Mercantile Bank of India.

Assets.	£	%*
Cash	3,655,446	18·1
Investments ...	1,495,785	7·4
Bills Discounted, Advances, etc. ...	13,968,316	69·3
Customers' Liability for Acceptances, etc., ...	819,594	4·1
Bank Premises, etc.	218,637	1·1
Total Assets ...	20,157,778	

National Bank of India.

	£	%*
Cash	10,619,019	19·2
Investments	3,554,529	6·4
Bills Discounted, Advances, etc.	37,069,530	66·9
Customers' Liability for Acceptances etc. ...	3,795,674	2·9
Bank Premises, etc.	312,758	·6
Total Assets ...	55,351,510	

P. & O. Banking Corporation †

	£	%*
Cash	1,525,776	24·9
Investments ...	644,957	10·5
Bills Discounted, Advances, etc. ...	3,222,391	52·5
Customers' Liability for Acceptances etc. ...	744,157	12·1
Bank Premises, etc.	2,561	...
Total Assets ...	6,139,842	

LXVIII. SOME SUGGESTED IMPROVEMENTS IN COMMERCIAL FINANCING IN INDIA.

To summarise the results of this chapter we find that:

1. The exclusion of the Imperial Bank of India from financing any part of the foreign overseas trade of India is prejudicial to the best commercial interests of India. An absolutely safe business in Exchange cannot however be built up by the Imperial Bank, even if the statutory restriction is removed, without a final revision of the currency policy of India, with the definite establishment of a free gold standard and gold currency in India. The effective control of the exchange market by the Imperial Bank would be impossible, unless it is entrusted with the management of our various currency reserves—which must be located in India—and with the manipulation of the volume of currency in India, in place of the present distrust and marwarism evidenced by the interest demanded by the Government from the Bank for issuing emergency currency. The Bank, of course, must itself be motived by a more clearly Indian national sentiment than is the case, I think, to-day.

2. The Indian Joint-Stock Banks might take a larger share in trade finance than they do to-day, both in the case of inland and foreign commerce. The latter, however, must wait until exchange—or rather the Indian currency system—is stabilised. In the case of the former, the Banks must exert themselves to approach directly the native producer, and also to popularise banking, simplify its procedure, standardise its instruments.

3. The need for an adequate Indian system of commercial financing would not, however, arise, unless at the same time the industries of India are developed to their legitimate extent. The two will and must go hand in hand. But whether both industrial and commercial financing should be attempted by the same institutions simultaneously is another question. English opinion and precedent is dead against; German practice has successfully achieved it before the War.* In India, as already noted elsewhere, the Tata Industrial Bank was started with a view to assist industries ; but has, since last year, been obliged to give up the industrial section of its business altogether, and has come to confine itself more and more to the commercial finance proper. It is clear, however, from past experience, that if an adequate, organised system of industrial financing is to succeed in India, it must come from the top. The Imperial Bank, instead of standing aloof, must lead the way ; and its task be simplified by attracting and entrusting to it deposits which are at present absolutely unutilised. The rest of the Indian banks will follow—not only in the beaten track, but on a road made safe and sound, by the premier banking institution to the country. An

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* See Riesser Op. cit.

indispensable preliminary to successful financial aid, both to the producer and the trader, is such an extension of the branches of the banks as to bring banking facilities within the reach of almost every tax-payer, including, of course, the land revenue payments, in India; and even making it indirectly compulsory, if necessary, to avail himself of these facilities. Fuller details of an Industrial and a Land Bank have been worked out by me in the *Indian Currency, Exchange and Banking.*

Chapter VIII.

ORGANISATION OF COMMERCE.

LXIX. COMMERCIAL INTELLIGENCE, ITS COLLECTION, COMPILATION AND DISTRIBUTION.

The Indian Industrial Commission writing in 1916-18 said:—

> "We have also had complaints from many of the witnesses whom we have examined that there exists no clearly defined channel through which information on commercial matters in the possession of Government can be communicated, whether publicly or to individual applicants. There is moreover a general feeling that the collection, careful analysis and judicial distribution of commercial and industrial intelligence is a necessary feature of Government policy both in War and peace."*

Though the Commission recommended *inter alia*, a reorganisation of the Commercial Intelligence Department, which, according to their view, ought to provide regular intelligence on the movement of internal and over-seas trade, production and working of Indian industries, and information regarding Indian and foreign trade usages, tariff legislation and industrial policy in general, uptil now that department has done little beyond publishing crop reports, trade reviews, and prices and wages statistics—about two years after the period they relate to.† As an illustration of what could be expected of a national Government in the domain of trade encouragement by organised systematic supply of information, the following rather long extract from Mr. Wolfe's recent work on the *Theory and Practice of International Commerce* would speak for itself.

> "The organs charged with the promotion of the commercial interests of a nation should gather and present in an accessible manner, efficiently, adequately, systematically, and, above all, promptly, information of statistical character, information of the needs in various markets for the exporting nation's products, data regarding tariff changes, taxation, and all other matters which the manufacturer and exporter cannot properly obtain on his own initiative, except in rare instances. But all this information must be available on equal terms to all those who are properly entitled to it. Finally official trade promotion should undertake special investigations of benefit to entire industries in their battle for foreign markets, it should maintain in all the strategic points of the world's commerce competent correspondents, it should be keenly alive to opportunities for the nation's

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* Op. cit. para 180.

† Amongst the civilised Governments of the day, that of India must be regarded as the most backward in its principles and methods of catering for the national needs. Even such an essential inquiry as that relating to the National wealth of India, though twice carried out under Lord Ripon and Lord Curzon, has not yet been placed before the public. Possibly they believe with a character in Dickens that "wanting to know" is not good for the public.

> commerce wherever it can compete, or enlighten it, if possible, for ways and means of obtaining a competitive standing; it should give its services in a practical, prompt and liberal manner, free from any taint of red tape; it should keep in close touch with the organised business interests of the nation as expressed in national and local associations, periodic conventions and gatherings, it should be absolutely free from any alliance with politics; in dealing with any organization it should never lose sight of the fact that its facilities are intended for the benefit of the whole nation, and that, as stated above, the machinery of the government must not be used for the promotion of individual interests or schemes, excepting in as far as these may benefit by official efforts freely presented to all truly concerned." *

This is a long extract, but not too long to show that the Indian Government is woefully backward in a conscious and deliberate effort to promote, even by such indirect assistance, Indian industry and commerce, though it has hitherto pretended to justify some of its most extraordinary measures on the plea of its paternalism as contradistinguished from a popular or responsible government. We have, indeed, a department of industries, and another for commerce, in the central Government, charged with industrial and commercial matters including transport and communications,—without mentioning the separate departments of industries under the various provincial governments. But these are only organs of administering given laws, not instruments for a conscious and active promotion of our national trade or industry. A statistical department with a commercial intelligence branch no doubt exists; but, as already observed, its publications are generally two years out of date by the time they see the light of day, and so utterly useless for any intelligent service to the Indian commercial world. And then they are never compiled with the underlying and all-powerful motive of a conscious aid to Indian industry or trade. If the documents emanating from this specific department of commercial intelligence must bear such a criticism, what can we say of those other publications hailing from the various research departments and institutions? They are couched in a language as a rule unintelligible to the mass of the Indian commercial world. One cannot say what puck-like sentiment of wanton mischief dictates the peculiar style, get up and the *tout ensemble*, which make these documents utter failures from the stand-point of the immediate objects they are intended to serve. Finally such standard works as the *Imperial Gazetteers*, or Sir Geo. Watts's classic production on the *Economic Products of India*,, or even the reports of the Geological Survey, are either too technical, too little known, or too much out of date to be of real use. The Indian Governments have yet to learn the utility of commercial handbooks, more up-to-date and readable than the heavy and forbidding tomes of their annual trade statistics for instance. *

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* Op. cit p. 496-7. The description of the activities of the U. S. Department of Commerce which follows, though not comparable to the German prototype would, leave an Indian agape with wonder at the remarkable paternalism of the Government among a people that officially scorn governmental paternalism.

Outside the departmental headquarters, the activities of the Indian Government in promoting the trade of India are practically non-existent. We have no independent Consular service of our own, and the British consular service only aims at finding outlets in India or elsewhere for British manufactures. Even if we do not definitely aim at developing an export trade in Indian manufactures, the whole view point of an Indian consular

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* To mention only one specific case of possible but neglected improvement in their methods, Government publications in the leading vernaculars on all such matters have still to be tried on a large scale, and English is understood by less than 1 p. c. of the population.

The following is a list of the principal official publications relating to trade and industry and scientific research in India:

Trade and Manufactures—

Annual Statements of Sea-borne Trade and Navigation, Indian and Provincial (Madras, Bombay, Sind, Bengal, Bihar and Orissa, Burma).

Review of the Trade of India (Parliamentary Paper).

Tables of the Trade of India (Parliamentary Paper).

Provincial Reports on Maritime Trade and Customs (including working of Merchandise Marks Act) for Bengal, Bihar and Orissa, Bombay, Sind, Madras, and Burma.

Accounts relating to the Sea-borne Trade and Navigation of British India (monthly and for Calendar Year).

Accounts relating to the Trade by Land of British India with Foreign Countries (monthly).

Annual Statement of Coasting Trade of British India.

Report on the Trade and Navigation of Aden.

Accounts of Trade carried by Rail and River in India.

Report on Inland, Rail-borne, or Rail-and-River-borne Trade for each Province.

External Land Trade Reports for Bengal, Bihar and Orissa, Assam, Burma, United Provinces, Punjab, North-West Frontier Province, Sind, and British Baluchistan.

Indian Trade Journal (weekly).

Statistics relating to Joint-Stock Companies in British India and Mysore.

Report on the working of the Indian Companies Act for each Province.

Report on the working of the Indian Factory Act for each Province.

Report of the Chief Inspector of Explosives.

Prices and Wages.—

Prices and Wages in India.

Variations in Indian Price Levels.

Reports of Provincial Wage Census.

Scientific Department.

Report on the Operations of the Survey of India.

Records of the Survey of India.

Records and Memoirs of the Geological Survey of India.

Report of the Indian Meteorological Department.

Indian Weather Review, Annual Summary.

Rainfall data of India.

Memoirs of the Indian Meteorological Department.

Report of the Meteorologist, Calcutta.

Report of the Director-General of Observatories.

Memoirs and Bulletins of the Kodaikanal Observatory.

Report of the Board of Scientific Advice.

Report of the Archæological Survey of India and Provincial Reports.

Report and Records of the Botanical Survey.

Besides these there are annual reports on Forests, Mines, Railways Posts and Telegraphs, and emigration and immigration. But they all labour under the general criticism outlined above.

service must be necessarily different. Even the protagonist of the British Trade Commissioners in India has to be evolved. The Indian High Commissioner is a personage charged with functions quite different from what might be expected from the consular officers and commercial agents of the nation as a whole. And, there are, of course, no independent non-official organisations, like the Federation of British Industries for example, to cheque, advise, or call to order the Government of India on such matters. The Chambers of Commerce and Trade Associations, reviewed below, are, indeed, useful in their way; but they cannot serve the need of a national Governmental agency in this regard.

LXX. CHAMBERS OF COMMERCE AND TRADE ASSOCIATIONS.

Subjoined is a brief account of the principal Chambers of Commerce and the Industrial and Commercial Associations now functioning in India.

CHAMBERS OF COMMERCE.

Modern commerce in India was built up by merchants from the West, and was for a long time entirely in their hands. Chambers of Commerce and numerous kindred Associations were formed by them for its protection and assistance. But Indians have in recent years, taken a large and growing part in this commercial life. The extent of their participation varies greatly in different parts of India, according to the natural proclivities and genius of different races. Bombay, for instance, has led the way in the industrial and commercial regeneration of the new India, while Bengal, very active in other fields of activity, lags behind in this one. Arising from these circumstances we find Chambers of Commerce in Bombay, Karachi, Calcutta, Madras and other important centres, with a membership both European and Indian; but alongside these have sprung up in recent years certain Associations, such as the Bombay Indian Merchants' Chamber and Bureau, of which the membership is exclusively Indian. These different classes of bodies are in no sense hostile to one another and constantly work in association.

The London Chamber of Commerce in 1912, realising the increasing attention demanded by the economic development of India, took steps to form an "East India Section" of their organization. The Indian Chambers work harmoniously with this body, but are in no sense affiliated to it, nor is there at present any inclination on their part to enter into such close relationship, because it is generally felt that the Indian Chambers can themselves achieve their objects better and more effectively than a London body could do for them, and on various occasions the London Chamber, or the East India Section of it, have shown themselves out of touch with what seemed locally to be immediate requirements in particular matters.

BENGAL.

The Bengal Chamber of Commerce, founded in 1834, is probably the oldest commercial organisation in India. Its headquarters are in Calcutta. Other societies connected with the trade and commerce of the city are the Royal Exchange, the Bengal Bonded Warehouse Association, the Calcutta Trades Association, the Bengal National Chamber of Commerce and the Marwari Chamber of Commerce. The Bengal Chamber is registered with a declaration of membership of 300. Its objects are the usual purposes connected with the protection of trade " in particular in Calcutta."

Merchants, bankers, shipowners, representatives of commercial, railway and insurance companies, brokers, persons and firms engaged in commerce, agriculture, mining or manufacture, and joint-stock companies or other corporations, formed for any purpose or object connected with commerce, agriculture, mining or manufacture, and persons engaged in or connected with art, science or literature, may be elected as permanent members of the Chamber.

The Chamber elects representatives to various other bodies of less importance. The following are the recognised associations of the Bengal Chamber of Commerce :—

Calcutta Wheat and Seed Trade Association, Indian Jute Mills Association, Indian Tea Association, Calcutta Tea Traders Association, Calcutta Fire Insurance Agents Association, Calcutta Import Trade Association, Calcutta Marine Insurance Agents Association, The Wine, Spirit and Beer Association of India, Indian Mining Association, Catcutta Baled Jute Association, Indian Paper Makers Association, Indian Engineering Association, Calcutta Jute Fabrics Shippers Association, Calcutta Hydraulic Press Association, Jute Fabric Brokers Association, Baled Jute Shippers Association, Calcutta Jute Dealers Association, Calcutta Liners Conference, Calcutta Hides and Skins Shippers Association, Northern India Tanners' Federation and Indian Indigo Co-operative Association.

The Chamber maintains a Tribunal of Arbitration for the determination, settlement and adjustment of disputes and differences relating to trade, business, manufactures, and to customs of trade, between parties, all or any of whom reside or carry on business personally or by agent or otherwise in Calcutta, or elsewhere in India or Burmah, by whomsoever of such parties the said disputes and differences be submitted. The Secretary of the Chamber acts as the Registrar of the Tribunal, which consists of such members or assistants to members as may, from time to time, annually or otherwise be selected by the Registrar and willing to serve on the Tribunal. The Registrar from time to time makes a list of such members and assistants, The Chamber also maintains a Licensed Measurers Department controlled by a special Committee.

The Chamber does not assist in the preparation of official statistical returns. It publishes weekly the *Calcutta Prices Current* and its monthly supplement; and also publishes a large number of statistical circulars of various descriptions.

BOMBAY.

The object and duties of the Bombay Chamber of Commerce, as set forth in their rules and regulations, are to encourage a friendly feeling and unanimity among commercial men on all subjects involving their common good; to promote and protect the general mercantile interests of this Presidency; to collect and classify information on all matters of general commercial interest to obtain the removal, as far as such a Society can, of all acknowledged grievances affecting merchants as a body, or mercantile interests in general; to receive and decide references on matters of usage and custom in dispute, recording such decisions for future guidance, and by this and such other means, as the Committee for the time being may think fit, assisting to form a code of practice for simplifying and facilitating business; to communicate with the public authorities, with similar Associations in other places and with individuals, on all subjects of general mercantile interests; and to arbitrate between parties willing to refer to, and abide by, the judgment of the Chamber.

The Bombay Chamber was established in 1836, under the auspices of Sir Robert Grant, who was then Governor of the Presidency, and the programme described above was embodied in their first set of rules. There is affiliated with the Chamber the Bombay Mill-owners' Association, which exists to carry out the same general objects as the Chamber in the special interests of "millowners and users of steam and water power."

All persons engaged or interested in mercantile pursuits desirous of joining the Chamber and disposed to aid in carrying its objects into effect are eligible to election to membership by ballot.

Gentlemen distinguished for public services, or "eminent in commerce and manufactures," may be elected honorary members and as such are exempt from paying subscriptions. Any stranger engaged or interested in mercantile pursuits and visiting the Presidency may be introduced as a visitor by any Member of the Chamber inserting his name in a book to be kept for the purpose.

SPECIAL WORK.

One of the most important functions performed by the Chamber is that of arbitration in commercial disputes. Rules for this have been in existence for many years and have worked most satisfactorily. The decisions are in all cases given by competent arbitrators appointed by the General Committee of the Chamber and the system avoids the great expense of resort to the Law Courts.

A special department of the Bombay Chamber is its Statistical Department, which prepares a large amount of statistical returns connected with the trade of the port and of great importance to the conduct of commerce. The department consists of fourteen Indian clerks who, by the authority of Government, work in the Customs House and have every facility placed at their disposal by the Customs authorities. They compile all the statistical information in connection with the trade of the port, in both export and import divisions, which it is desirable to record. No other Chamber in India does similar work.

The Bombay Chamber publishes a Daily Arrival Return, which shows the receipts into Bombay of cotton, wheat and seeds, and a Daily Trade Return which deals with trade by sea and shows in great detail imports of various kinds of merchandise and of treasure, while the same return contains particulars of the movements of merchant vessels.

The Chamber publishes twice a week detailed reports known as Import and Export manifests, which give particulars of the cargo carried by each steamer to and from Bombay.

Three statements are issued once a month. One shows the quantity of exports of cotton seeds and wheat from the principal ports of the whole of India. The second gives in detail imports from Europe, more particularly in regard to grey cloths, bleached cloths, Turkey red and scarlet cloths, printed and dyed goods, fancy cloth of various descriptions, woollens, yarns, metals, kerosene oil, coal, aniline dyes, sugar, matches, wines and other sundry goods. The third statement is headed, "Movements of Piece Goods and Yarn by Rail," and show the despatches of imported and local manufactured piece-goods and yarn from Bombay to other centres of trade served by the railways.

The "Weekly Return" issued by the Chamber shows clearances of a large number of important descriptions of merchandise. A return of "current quotations" is issued once a week, on the day of the departure of the English mail, and shows the rates of exchange for Bank and Mercantile Bills on England and Paris, and a large quantity of general banking and trade information.

The annual reports of the Chamber are substantial tomes in which the whole of the affairs of the Chamber and the trade of the port during the past year are reviewed:

The Chamber has also a Measurement Department whose business is that of actual measurement of exports in the docks before loading in steamers. Certificates are issued by these officers with the authority of the Chamber to shippers and ship agents as to the measurement of cotton and other goods in bales or packages.

BOMBAY MILL-OWNERS' ASSOCIATION.

The Bombay Mill-owners' Association was established in 1875, and its objects are as follow:—

(*a*) The protection of the interests of mill-owners and users of steam, water and of electric power in India.

(*b*) The promotion of good relations between the persons and bodies using such power;

(*c*) The doing of all those acts and things by which these objects may be furthered.

Any individual partnership or company, owning one or more mill or mills or one or more press or presses or one or more ginning or other factory or factories actuated by steam, water, electric and or other power is eligible for membership, members being elected by ballot. Every member is entitled to one vote for every complete sum of Rs. 50 paid by him as annual subscription.

INDIAN MERCHANTS' CHAMBER.

The Bombay Indian Merchants' Chamber and Bureau was established in 1907 with the following objects:—"To encourage a friendly feeling and unanimity among the commercial men on all subjects involving their common good; to promote and protect the trade, commerce and manufactures of India and in particular to promote the general commercial interests of the Presidency of Bombay; to consider and deliberate on all questions affecting the rights of Indian Merchants, to represent to the Government their grievances, if any, and to obtain by constitutional methods the removal of such grievances; to collect and compile and distribute in such manner as may be the most expedient for purposes of disseminating commercial and economic knowledge, all statistics and other information relating to trade, commerce and finance, specially India: as well as to form and maintain library, and generally to do all such matters as may promote the above objects in view; to arbitrate between parties willing to refer and abide by the judgment of the Chamber; to receive and decide references of matters of usage and custom in dispute, recording such decisions for future guidance and assisting by this and such other means, as the committee for the time being may think fit; to form a code of practice so as to simplify and facilitate the transaction of business."

The following bodies are connected directly and indirectly with the Chamber, though no public body is directly affiliated to it:—

The Bombay Native Piece-goods Association (which sends a large number of representatives);

The Grain Merchants' Association (which is a member);

The Hindustani Native Merchants' Association (which is a member);

The Bombay Rice Merchants' Association;

The Bombay Fancy Piece-goods Association;

The Bombay Yarn, Copper and Brass Native Merchants' Association.

Under the Montagu-Chelmsford Reforms, the Chamber has the right of electing one representative on the Indian Legislative Assembly and one on the Bombay Legislative Council. The Chamber also has the right to elect a representative on the Board of the Sydenham College of Commerce and Economics, Bombay.

Any person engaged in mercantile pursuits or interested in trade and commerce desirous of joining the Chamber is eligible for membership, there being two classes of members, *viz.*, Ordinary and Honorary.

Gentlemen distinguished for public services or eminent in commerce and manufactures or otherwise interested in the aims and objects of the Chamber may be elected as Honorary members by a General Meeting of the Chamber on the recommendation of the Committee.

The Chamber publishes every month a journal in Gujarati giving information on commercial and industrial subjects and publishing all statistics considered important relating to trade and commerce of India.

COTTON TRADE ASSOCIATION.

The Bombay Cotton Trade Association, Limited, was founded in 1876. The objects for which it was established were *inter alia*, "to adjust disputes between persons engaged in the cotton trade, to establish just and equitable principles in the trade, to maintain uniformity to rules, regulations and usages in the trade, to adopt standards of classification in the trade, to acquire, preserve and disseminate useful information connected with the cotton interests throughout all markets and generally to promote the cotton trade of the City of Bombay and India and augment the facilities with which it may be conducted."

BOMBAY NATIVE PIECE-GOODS MERCHANTS' ASSOCIATION.

The objects of the Association are as follow :—

(*a*) To promote by creating friendly feelings and unity amongst the merchants, the business of the piece-goods trade in general at Bombay, and protect the interests thereof, (*b*) to remove, as far as it will be within the powers of the Association to do so, all the trade difficulties of the piece-goods business and to frame such line of conduct as will facilitate the trade; (*c*) to collect and assort statistics relating to piece-goods and to correspond with public bodies on matters affecting trade, and which may be deemed advisable for the protection and advancement of objects of the Association or any of them; and (*d*) to hear and decide disputes that may be referred to for arbitration.

GRAIN MERCHANTS' ASSOCIATION.

The object of this body is "to promote the interests of the merchants and to put the grain and seeds trade on sound footing." It is an influential body with a large membership.

KARACHI.

The objects and duties of the Karachi Chamber of Commerce are set forth in terms similar to those of Bombay. Qualifications for membership are also similar.

The following are the principal ways in which the Chamber gives a special assistance to members. The Committee take into consideration and give an opinion upon questions submitted by members regarding the custom of the trade or of the Port of Karachi. The Committee undertake to nominate European surveyors for the settlements of disputes "as to the quality or condition of merchandise in which both parties desire the Chamber to do so." When two members of the Chamber or when one member and a party who is not a member have agreed to refer disputes to the arbitration of the Chamber or of an arbitrator or arbitrators nominated by the Chamber, the Committee will undertake to nominate an arbitrator or arbitrators, under certain regulations. A public measurer is appointed under the authority of the Chamber to measure pressed bales of cotton, wool, hides and other merchandise arriving at or leaving the port.

MADRAS.

The Madras Chamber of Commerce was founded in 1886. All merchants and other persons engaged or interested in the general trade, commerce and manufactures of Madras are eligible for membership. Any assistant signing a firm or signing *per pro* for a firm is eligible.

The Chamber undertakes arbitrations and surveys the granting of certificates of origin and the registration of trade marks. One of the rules for the last named is "that no trade mark on ticket shall be registered on behalf of an Indian firm trading under a European name."

The following publications are issued by the Chamber:—Madras Price Current and Market Report, Tonnage Schedule and Madras Landing Charges and Harbour Dues Schedule.

SOUTHERN INDIA CHAMBER.

The Southern India Chamber of Commerce has its Registered Office in Madras. The objects of the Chamber are those usual for such bodies, concerning the promotion of trade, especially in the Madras Presidency and the interests of members. Special objects are stated to be:—

"To maintain a library of books and publications of commercial interest, so as to diffuse commercial information and knowledge amongst its members,

"To establish Museums of commercial products or organise exhibitions, either on behalf of the Chamber or in co-operation with others."

UPPER INDIA CHAMBER.

The Upper India Chamber of Commerce is concerned with trade, commerce and manufactures in the United Provinces and has its registered office at Cawnpore. Members are elected by the Committee, subject to confirmation by the next general meeting of the Chamber. Gentlemen distinguished for public service, or eminent in commerce or manufactures, may be elected honorary members of the Chamber by the members at a General Meeting and such shall be exempted from paying any subscription to the Chamber.

The Chamber appoints Arbitration Tribunals for the settlement and adjustment of disputes when invited to do so; members of the Tribunals being selected from a regular printed list of arbitrators.

PUNJAB.

The Punjab Chamber of Commerce has its headquarters at Delhi and exists for the care of mercantile interest on the usual lines in the Punjab, the North-West Frontier Province and Kashmir. Members are elected by ballot, the only necessary qualification being interest in mercantile pursuits.

There are two classes of members, permanent and honorary. The usual conditions as to eligibility for election prevail.

UNITED PROVINCES.

All the important commercial and industrial interests of the Provinces of Agra and Oudh are represented on the United Provinces Chamber of Commerce,

BURMA.

The Burma Chamber of Commerce, with headquarters at Rangoon, exists to encourage friendly feeling and unanimity among commercial men on all subjects involving their common good, to promote and protect trade, commerce and manufactures and, in particular, the general mercantile interests of the province, to communicate with public authorities, associations and individuals on all matters, directly or indirectly affecting these interests, and to provide for arbitration between parties willing to refer to and abide by the judgment of arbitrators appointed by the Chamber. The following are affiliated bodies :—

Burma Fire Insurance Association.

Burma Marine Insurance Agents' Association.

Rangoon Import Association.

Tavoy Chamber of Mines.

All British corporations, companies, firms or persons engaged or interested in mercantile pursuits, such as merchants, bankers, shipowners and brokers or who are connected with agriculture, mining, manufactures, insurance, railways, commerce, art, science or literature shall be eligible to become Chamber Members. Every non-British concern or person, similarly engaged or interested as indicated above be eligible for election as an Associate Member.

The Chamber undertakes arbitrations in addition to its ordinary work. It does not publish any statistical returns.

COCANADA.

The Cocanada Chamber of Commerce was established on 29th October, 1868.

The rules of the Chamber provide "that by the term 'member' be understood a mercantile firm or establishment, or the permanent agency of a mercantile firm or establishment, or a society of merchants carrying on business in Cocanada, or other place in the Districts of Kistna, Godavari, Vizagapatam, and Ganjam, and duly electing to the Rules of the Chamber, and that all such be eligible, but only members resident in Cocanada can hold office." Members are elected by ballot. The committee, when called upon by disputing members or non-members of the Chamber, give their decision upon all questions of mercantile usage and arbitrate upon any commercial matter referred to them for final judgment. In the former case a fee of Rs. 16 and in the latter a fee Rs. 32 must accompany the reference.

A weekly slip of current rates of produce freights, and exchange is drawn up by the Committee.

LXXI. THE INDIAN INDUSTRIAL AND COMMERCIAL CONGRESS.

The credit of conceiving the idea of organizing an Indian Industrial Conference under the auspices of the Industrial Association of Western India belongs to the late Mr. M. G. Ranade. Discussion of questions relating to agriculture, finance, commerce and industry of the whole country by inviting experts in different branches, the formation of well informed public opinion on economical problems were the objects kept by Mr. Ranade in view in convening. The first session of the Conference was held at Poona in August 1891, under the presidency of Captain Beauclerk of Hyderabad and was attended by distinguished European and Indian gentlemen. The more sessions of the Conference were held in 1892 and 1893. But owing to the elevation of Mr. M. G. Ranade to the High Court and his transfer to Bombay, this movement came virtually to a standstill, until it was revived in 1905. The National Congress almost since its inception has given prominent attention to some of the principal economic questions and the famines of 1896–97 and 1899–1900 contributed not a little to push the economical problem to the forefront and resulted in the organization of three or four Industrial aud Agricultural exhibitions between 1900 and 1905 under the auspices of the National Congress, which gave the people an opportunity to take stock of their gains and losses in the field of arts and industries and opened their eyes to their industrial backwardness. Small committees were appointed at these exhibitions to devise means for the revival of existing industries and also for the starting of new ones.

In the year 1905 the exhibition Committee of Benares took the important step of reviving the Industrial Conference organization. The first session was accordingly held under the distinguished presidency of the late Mr. R. C. Dutta.

It has succeeded in creating an intelligent and powerful public opinion on mercantile and commercial matters, and in bringing about an industrial awakening throughout the country. In order to add to its efficiency, one of the resolutions unanimously passed at the Delhi sitting, entrusted the Standing Gommittee of the Conference for the year, with the onerous task of overhauling its constitution with a view to its complete reorganization and the improvement of its driving capacity. The Committee, after very careful and anxious consideration, have come to the conclusion that the larger interests of the country would be more effectively served by reducing to the minimum the duplication of existing machinery, and by concentrating the energy and resources of the country into as few channels as possible. It has therefore been decided to bring about an amalgamation between the Conference and the Indian Commercial Congress which was started in Bombay in the year 1915 with very much the same object as the Conference, thus uniting their forces, strengthening their resources, and more effectively focussing the views of the public on all matters and problems relating to the commerce and industry of the country.

LXXII. THE INDIAN HIGH COMMISSIONER.

We may notice here in particular the position and importance of the Indian High Commissioner, who, if at all there is a public functionary of high standing charged with commercial functions, meets the description. The High Commissioner for India was appointed in England, under the new constitution of 1920, on the analogy of the Dominion High Commissioners, but has functions and standing quite different. He is not, like his Dominions confrères, virtually an ambassador from one sovereign power accredited to another; and yet he is supposed to be a political officer. His duties are a medley of financial and agency functions, which seldom give him a chance to exhibit any anxiety for promoting Indian commerce as such; and yet some of the activities of the late Sir William Meyer, the first High Commissioner, suggested possibilities in that direction, which, if Indian trade and Indian industry are to be fully attended to, would have to be much further explored and enlarged by his successor. The purchase of Government Stores forms the most important of the present duties of the High Commissioner; but the revelations of the Inchcape Committee—the Indian Retrench ment Committee—make it clear that the various governments on whose accounts stores have to be purchased outside India so ordain matters as to render the High Commissioner a mere mouth-piece, a sort of an inanimate post office, whose interposition between the ordering authority and the ultimate supplying agency only causes needless delay without any corresponding profit at all.* The High Commissioner may or may not be made into a

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*"The High Commissioner has drawn our attention to the fact that indentors frequently tie his hands by restricting him, in spite of his protests, to a particular manufacturer or source of supply. This inevitably connotes the payment of higher prices than would otherwise be necessary, and the High Commissioner has furnished us with several instances where large sums of money have been lost both to the Central and Provincial governments as the result of such restrictions, and also by indentors conducting initial negotiations with the representatives of particular firms". Report of the *Indian Retrenchment Committee* p. 143-144 para 52. This practice suggests very unpleasant reflections about the standard of public honour and rectitude now in vogue among officers charged with the purchase of stores &c. The explanation probably lies in the fact that while the European officer in India is losing his sense of responsibility, the *esprit de corps* which dictated a fairly high standard of public honesty having disappeared owing to the breach in his absolute monopoly of superior posts in public service—the Indian element now attracted and encouraged has, unfortunately, still to acquire that sense of public morality which is not quite consistent with commercial instincts. The lawyer, with all his unpopularity in the Indian bureaucracy, had still learnt to observe the unwritten rules of professional etiquette, which saved him from abusing his position when he was suddenly made a minister in a non-responsible government. The commercial magnate, turned a minister, may not consciously abuse his position. But he has all along been accustomed to overvalue money so disproportionately, that it would be superhuman to expect of him a sudden and complete disregard of all opportunities to make money over and above his official salary. If therefore the High Commissioner had to make the complaint above-noted with all its implications, we must regretfully recognise that the

nucleus of a great service for the commercial expansion of India. He probably will develop into a great political officer with the spread of responsible self-Government in India, and during the continuance of the British Empire federation. Such agency business as he may still be conducting on behalf of the Indian governments would be of secondary importance in the various sections into which his department is bound to be split up. But the real commercial expansion of India by the intelligent collection, compilation and distribution of information, by a careful watch on foreign markets allowing profitable openings for the import as well as the export trade of India, by representation in and association with world commercial movements or associations, must be entrusted to a special service, whose supreme head and directing genius must be in this country. Perhaps an independent commercial or consular service for India may be premature to-day; and if India is satisfied with developing just her own markets only, that need will never arise. But granted commercial ambitions on the most modest and legitimate scale, India cannot afford to leave her national commercial interests merely to the care of a High Commissioner stationed in London.

(continued from p. 238.)

implied accusation lies not exclusively at the doors of the high-placed European officer in India; but that his Indian colleague must also share the onus and odium of the charge. The remedy for this evil is not to exclude the Indian; or even the commercial element from the new Indian Government; but rather to expedite complete responsibility to the people governed, so that the representatives of the latter might take suitable steps to avoid the charges of corruption—made openly by the Acworth Committee on Indian Railways and bribery, implied in the above passage from the Inchcape Report.

Chapter IX.

COLLECTIVIST ORGANISATION OF TRADE.

LXXIII. COMMERCE NOT NECESSARILY INDIVIDUALISTIC.

We have been so much accustomed to regard trade or exchange as synonymous with commerce for individual gain that we have almost identified commercialism with individualism, the act of exchange with the institution of private property. And yet exchange need not essentially or even necessarily, spell exploitation. The basic and the only justification for any act of exchange is the possibility of an increase in utility in the commodities exchanged from the party who has a surplus of it to the party who has a deficiency. The classic formula relating to life being too short and art too long is rendered a dead letter by the human contrivance of a division of labour supplemented by an exchange of surplus. But the motive for production, as well as the stimulus for exchange, are fundamentally misconceived in a capitalist organisation. Production on the individualistic basis is organised exclusively for exchange. The producer does not care a scrap for the articles he produces on a gigantic scale. And though he cares still less for the parties he exchanges—or sells—his products to his only concern is to get rid of his produce in the quickest possible manner. [*] He exchanges to exploit. He sells to make the greatest possible profit for himself, not to serve the greatest possible need of his fellow-workers. The motive of personal gain has usurped the ideal of service to one's fellows. The spirit of greed has dethroned the artist's satisfaction in working for the sake of the work's own beauty. Work thus becomes not an instinct but an oppression; not an outlet to express the soul of the worker, but an instrument to obtain a reward in money. In a word production mainly for use is perverted into production entirely for exchange. * To restore exchange to its true place in the scheme of our social organisation, to revive the true motive for any exchange at all, humanity will have to be educated to outgrow the obsession and perversions of the existing individualistic organisation. We must learn to regard the primary purpose of production to be not sale but consumption. We must learn to look upon exchange, not, indeed, as superfluous or suppressible, but as highly important function necessary to enable humanity, with all its limitations of life and strength and knowledge, to realise the true aim and object of all being. It certainly cannot be an organised attempt at universal degradation by mutual and all-round effort at ceaseless exploitation, as our present commercial civilisation inevitably suggests. It is far more likely to consist in a striving for excellence, an attempt at perfection each in his or her own sphere of life and action, that would be impossible if each individual or even group would need to be self-sufficient and produce all that it might itself require. We must exchange to excel ourselves in our own work, not to exploit others. We must avail ourselves of every device—exchange is one of them, and machinery another,-in spite of the undeniable soullessness of machine production, and of the organisation of a society based on such a production which could free our energies to be devoted to the greatest possible cultivation, expression, experimentation and perfection of self. For the perfection of the individual will be the acme of socialisation. Exchange for personal profit must be replaced by exchange for mutual service. This does not necessarily mean that profit must be entirely eliminated. It only means that "profit" in exchange must be equal and mutual. It may even imply that the meaning of profit would be metamorphosed. The extent of exchange in a reorganised society here contemplated would be determined as in the present society, by the intensity of demand, which, however, must be spontaneous, not stimulated artificially by the designing producer intent only upon finding a market for his products; but that intensity will have to be valued not by the money the would-be buyer is prepared to pay, but upon the real utility he expects to derive from the satisfaction of his want.

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[*] "Apart from the aggressions of a Capitalist Imperialism, which may, it is hoped be voluntarily abandoned prevented by an effective League of Nations, the examples of the Congo and Putumays, not to mention the African slave trade and "black-birding" in the Pacific demonstrate how unendurable it is, for a civilised community, to allow to capitalist enterprise a free hand for exploitation of the "non-adult" races. x x x x But not by mere prohibition and punishment of criminal acts can the problem be dealt with. The obtaining of products from these territories, and the exportation to them of the commodities that the natives desire cannot safely be left to the greed for gain of individual capitalists, unable, even if willing, to control those whom they send out to do the business. The only alternative to an indefinite extension of the sovereignty of the civilised nations ultimately covering the whole earth, seems to be the organisation of commerce with non-adult races, that are not thus annexed, by some responsible corporate body, not acting for private gain." *A Constitution for the Socialist Commonwealth of Great Britain.* p. 324 (note) by Mr. and Mrs. Sidney Webb. I do not know if the eminent authors of this most interesting work would include India among the "annexed" territories or "non-adult" races; but the foreign trade of India hitherto has certainly displayed some of the worst features of private greed, if not from the standpoint of international ethics; at least from that of the national economics of India, and as such, collective regulation and control of that trade is even more necessary than in the case of what they call the "non-adult" races. The robbery and exlpcitation of the weak by the strong is equal in Africa and in India. The only difference, perhaps, is that while the tribes of Africa are blissfully ignorant of the fact of the robbery, we in India are fully aware of it. It is thus a nice problem in metaphysics how far knowledge of the fact of being exploited, without an organised and effective protest against that exploitation, constitutes an acquiescence, on our part, and therefore an exoneration for the robbers.

LXXIV. A PROBLEM IN VALUATION.

And this brings us to the central difficulty in the modern science of economics. We have no proper, adequate scheme of valuation. I have studied and considered all the well-known theories of value. I have pondered over the laboured distinction between the value for use and value in ex-

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* Bar such articles as motor-cars or type-writers some of which may be used by the manufacturer for his own use, almost every article is produced nowadays for exchange. Even food-stuffs are produced for exchange—and that, too, without there being a superabundance of them; e. g. the Indian wheat.

change; I have dwelt upon the cost of production and the marginal utility in consumption. I have examined the expenditure of labour—or units of Life Force—in the production of utilities. But I confess I have found no satisfactory and acceptable explanation for comprehending and reconciling the personal with the social value; the national with the human value; the ethical with the economic value. I believe it is not impossible to reconcile these seemingly conflicting requirements into a comprehensive theory of values, though I have, for the present at least, no such scheme or theory or explanation of mine own to offer. I believe the very fact that these rival demands are made upon our intelligence is proof enough for the possibility of such constructive reconciliation; evidence in plenty of the insufficiency of the existing doctrine. I believe that what we are honestly convinced *ought* to be, *must* be, even though at the given moment it *may not* be; the may-not-be being only an additional reason to search further, and rest not satisfied until we have found the missing link—or discovered that our conception of what ought to be is palpably, demonstrably, conclusively erroneous. It is only when we have recast our conception of value, and rearranged our scheme of values; it is only when we have given its full due to objective as well as subjective factors in fixing and determining value, that we can purge the act of exchange, the idea of commerce, of the vicious misconception that has got rooted in it. It is only then that in individual, as well as in international, exchange, we shall be able to restore the basic idea, the only justification, for commerce, without personal profit but with definite human benefit. Exchange instead of being dreaded or abhorred as synonymous with exploitation, of the type prevailing in European commerce with backward or "non-adult" races, ought to, and will, be welcomed and encouraged as an aid to human perfection and social improvement.

LXXV. A COLLECTIVIST ORGANISATION OF EXCHANGE.

That these aspirations are not the vain hankerings of an impossible or insensate idealism may be evidenced by the already practicable system of exchange by collective-not individual—effort for mutual—and, it may be,—equal benefit. The root evil of exchange—particularly as manifested in international commerce—is the dread of profit being only onesided. The co-operative wholesale societies of European countries have eliminated successfully this element of profit in domestic exchange, by their working device of a dividend on purchase. I do not suggest that the mechanism of consumers' co-operative societies is perfect; I cannot see that this alternative to capitalism will or does reconcile successfully the interests of the producer and those of the consumer, or even dispense with a certain amount of avoidable waste in the shape of overhead or middlemen's charges, which necessarily reduce *pro tanto* the dividend on purchase. But as a first step, as a half-way house, it is certainly highly commendable.

> "Thus, the co-operative wholesale societies of half a dozen European countries, besides themselves obtaining directly from abroad an increasing

> part of the supplies that they severally require, have begun to exchange with each other their several products or those for which they possess exceptional advantages. And during the great War nearly all the Governments themselves acted as collectivist importers on a gigantic scale, purchasing abroad—often directly from other Governments-not only every kind of munitions, but also enormous quantities of metal, wool, cotton, wheat, meat and other requirements of their own people. To the extent to which either of these movements develop, the export trade of the world, conducted by capitalist merchants for private profit, will have been transformed essentially into a reciprocal exchange of imports, conducted by the paid agents of conductors and citizens, to the exclusion of capitalist profit. There seems to be no reason why this demonstrably practicable collectivisation of international trade—in which the co-operative movement would play an ever increasing part—should not become the predominant form between civilised communities." *

The same writers have shown, in their Fabian Research Department Reports published as special supplement to the *New Statesman* in 1914, that the Co-operative Wholesale Society of one country becoming a member of a similar organisation in another country, and trading on the true principle of international exchange and co-operative practice, viz. elimination of the profit on sales as regards the surplus or specialities of each such trading country, would solve completely the problem of international commerce and bring it on its right lines.† It is true, indeed, that in so far as the co-operative movement in each of the trading countries of the world has not developed to the stage of a complete elimination of the middleman, by instituting their own organisation for production in every important department, the true nature of co-operative trading may not be observed, and the profit on sales may not be altogether abolished. Even so, the practice of the English Co-operative Wholesale Society to send out to the Near East two of its own experienced directors to buy and ship directly currents and raisins for the puddings of the co-operators in the countries of their origin from private producers or sellers, thereby saving the C. W. S. an enormous amount in the middlemen's commissions of all sorts, embodies its own justification, though the dealings are with non-members. The old danger of a co-operative society engaging in export trade to parties who, not being its members, could not be entitled to any dividend on purchases, and would thus be debarred from obtaining the refund of that portion of the sale price which represented the profit of the seller, is thus largely obviated. Though the initial price charged by the selling society to the buying society would include profit for the seller, the right of the buyer society, itself a member of the seller, to obtain a dividend on its purchases would remove the root temptation of the export trade.—Profit-making from aliens would be eliminated.

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* *A Constitution for the Socialist Commonwealth of great Birtain* p. 254 by Mr. and Mrs. Sidney Webb.

† *The Consumers' Co-operative Movement* by S. and B. Webb, p. 284.

> "To put it paradoxically, there ceases to be, within that enlarged circle, any export trade, in the sense of commodities that are sent away to be sold in another country in order to extract profit out of alien purchasers. Thus we may gain the vision of the whole of the international transmission of commodities being managed as imports by interlocked communities, without any toll or profit to the capitalist trader or banker, and without any opportunity either for loss or profit in the mercantile sense." *

LXXVI. SOCIALISATION OF INDUSTRY AND COMMERCE.

Must socialisation of industry precede the elimination of profit-making or exploitation in exchange? Or, at any rate, is it a condition precedent that production be so organised as to exclude the capitalist profit-maker? In another of their works, the great British social thinkers already quoted, have expressed the doubt that:—

> "It must, however, be contemplated that the export trade to nations not themselves adopting socialism or co-operation, and unprovided with Governments with which other Governments can deal in a corporate capacity—and with it, possibly the bulk of the shipping and banking, and perhaps of the manufacture, that this export trade necessitates—will remain longest within the sphere of the private capitalist, subject to whatever conditions of control and taxation the community may find it expedient to impose."†

With all deference to the deserved reputation of these writers, it must be pointed out that if the *export trade* particularly is not first taken in hand, the root of capitalism and individualism will be left untouched; and that, in consequence, the whole internal structure of production and exchange on a socialist or co-operative basis runs the risk of being undermined. It is not merely because of the dangers of an insensate profit-making export trade to "non-adult" races, as these writers themselves have described the trade of Europe with the backward races of Africa, that we would rather begin with a state control of export trade, which would be a first condition to socialisation completely. ‡ Though these dangers are in themselves very terrible indeed, it would, we recognise, be ever so much simpler to manage an export-trade with socialised or co-operative communities on the non-profit making principle; but because the other is more difficult, that is all the more a reason not to infringe upon the root principles of our own social organisation on a more equitable basis. For we cannot demand that simply for our convenience in dealing with them, other communities should be socialised or become co-operative, if for themselves and of their own accord they would not perceive and adopt the advantages of a socialist organisation. Our insistence upon a rigorous state control, wherever we cannot utterly eliminate them, upon the profit-making elements in our export trade springs from our perception of the evils resultant from such an exception being made to the general basis of a socialised community. Hence, even though other communities may not be socialised or working on a co-operative basis, the socialist commonwealth having any trade with such dissimilar organisations must keep—on its side at least—a rigorous control of that trade; and, like the present-day practice of the Co-operative Wholesale Society in buying, if need be, from private sellers abroad directly by their own agents, financing by their own banks such purchases, and transporting in their own ships such consignments, to make a saving for their co-operators, such communities must institute their own organisation for controlling, regulating and guaranteeing the quality, price and delivery of their exports to foreign countries not socialised enough.

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* S. and B. Webb. Op. cit. p. 289.

† S. and B. Webb. *A Constitution for the Socialist Commonwealth of Great Britain* p 255,

‡ Op. cit. p. 324 note.

This, however, does not quite answer the question of this section. Must the socialisation of industry precede that of exchange? The history of the co-operative movement begins with an attempt to regulate exchange, and developes into carrying on its own production. But this analogy or precedent need not be an argument, particularly as it is the peculiar national characteristic of the British people that in all the problems of their national life, they would aim at devising a special remedy for a specific complaint, without troubling themselves with examining in proper perspective the complaint as well as the remedy suggested. They have translated in every day life the biblical principle: sufficient unto the day is the evil thereof. And as they complacently regard this national trait of theirs as an evidence of their essentially practical bent of mind, and sound commonsense, it would not do for an outsider—and an Indian at that!—to point out that it argues a want of logic, an inability to think out in the abstract instead of groping in the dark. Exchange for profit, however, would seem to be unavoidable—and needlessly ruinous to anybody who attempts to carry it on without profit—so long as production is based on the principle of exchange, not for use; and, therefore, is motived solely by a desire for monetary gain for the individualist producer. The very fact that the developing co-operative Society in Britain found it advisable and necessary to start its own production to supply its own stores, instead of simply buying from private manufacturers at wholesale rates, is, to my mind, an argument that, production must first eliminate the principle of private gain as a motive force before exchange can be effectively controlled as a social activity only. Collectivism in industry—or all forms of production—must, in my judgment, lead the way, not only in order to purge the necessary act of exchange of all taint of its prevalent commercialism, but also to avoid or minimise those incidental evils, which an intensive and organised effort at industrialism is otherwise bound to produce in industrially more backward communities. It is, I think, futile to bid them not to develop their resources for dread of these possible evils. But it would in every case be more profitable—whether we focus upon industrialism as exhibiting the sweated mother and the stunted child, or as causing a needless rise in prices through avoidable tariff burdens to require that industry be socialised—or work on some principle that would avoid or minimise the search for private gain, before an effective regulation of commerce in the social interest can be contemplated.

LXXVII. CONDITIONS IN INDIA.

The preceding analysis applied to Indian conditions would yield some very curious results. The Government of India has very considerable commercial enterprise of its own, which, in its totality, would almost dwarf the proportions of private enterprise. To use the Webbs' phraseology, compulsory associations of consumers has been formed by this Government on a scale and in a domain considered to be almost inaccessible to the co-operative principle. Irrigation canals constructed and operated by Government agency water some 20 million acres of agricultural land in India, thereby solving not only one of the most intricate and difficult problems of agricultural economy in India, but adding substantially to the agricultural wealth of the country. It is true that this use of collective financing and management in agriculture has stopped short at a stage where the fullest intensive benefit of these reforms cannot be had. Our agrarian produce does not show that quantity and variety which scientific cultivation on proper economic holdings, duly equipped with seed and machinery and water, could bring about. But even so it is a novel departure worth noting. Even in other departments, Government in India have essayed to run ordnance and clothing factories; for their army, opium and other drug culture for ordinary commerce, and all sorts of forest industries and civic supplies which may be required by a growing centre of population. * And in the domain of commerce itself, we find the state practically owning all, and operating some very important means of communications, like the Post Office in all its departments and the railways. The wasteful anachronism of a privately owned telephone system, or tramway communication, in a city like Bombay is the legacy of days in which the need of public ownership and operation of these essentially public service utilities had not yet been fully recognised. They are only the exceptions that prove the rule. Finally, not only in such aids to commerce as banking and transport facilities, but even in actual buying and selling, the principle of state activity seems to be accepted, at

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* The Bombay Development scheme is a superlative example of state activity for civil supplies. For it aims at re-claiming several square miles of area from the sea to be added to the civic area of Bombay; to erect and maintain some 50,000 tenements at Government expense and through their departmental agency for the Bombay proletariat; to provide, through the Bombay Municipality, water and lighting and drainage for these on modern lines, at an economic rent. This last has, indeed, seemed to be too high for the ability of the intended tenant of the Government tenements; but that is due partly to the extravagance of a department which has yet to learn the lesson of rendering public service absolutely free from any search for private gain; and partly also on account of the doubtful wisdom of excluding the employing class from bearing a share of the burden. The hankering after individualism is evidenced by the policy, seemingly announced and adopted by the U. P. Government, of making over their resin and other factories for working up forest produce to private individuals, after all that it has cost the Government to pioneer such enterprise to financial success.

least in so far as relates the purchase of stores for the various Government departments. These stores now aggregate some 14 crores per annum, and are of all conceivable description from coal to cordite as the subjoined table shows :—[*]

	Pre-war Average.	War Average.	1919-20	1920-21	1921-22
Railway plant & rolling-stock—					
Carriages and wagons ...	1,10,86	58,01	3,57,79	1,00,49	1,51,09
Locomotive engines & tenders.	68.98	11.56	44,07	1,25,16	76,61
Materials for construction—					
Rails and fishplates Tons.	55,72	11,29	40,93	7,94	4,51
Other sorts	44,03	14,12	3,41	1,64	9,73
TOTAL ...	2,79,59	1,24,98	4,46,20	2,35,23	2,41,94
Coal, coke, and patent fuel Tons	15,17	4,08	10	...	1,56,68
Metals and ores—					
Iron and steel... ... Tons.	35,10	46,50	72,87	93,51	74,67
Copper ... ... Cwt.	16,40	56,62	58,62	46,39	37,46
Others ... ... Tons	10,60	38,74	35,20	60,98	11,11
TOTAL ...	62,10	1,41,86	1,66,69	2,00,88	1,23,24
Carriages and carts	2,15	11,69	37,51	82,84	1,09,73
Machinery and millwork ...	28,15	27,37	44,70	85,64	1,06,14
Instruments, apparatus, and appliances	18,16	37,75	41,91	66,41	95,09
Hardware and cutlery	29,59	64,48	87,00	95,81	84,70
Telegraphs, materials for construction of	11,82	17,95	57,90	41,91	46,54
Ships, parts of (including launches and boats)	1,95	27,77	1,95	8,82	32,04
Drugs and medicines	7,08	15,13	20,09	22,74	28,88
Stationery...	9,69	22,22	27,13	29,48	26,11
Textiles—					
Cotton manufactures	4,78	15,34	29,71	5,61	11,26
Flax	4,09	43,64	29,73	10,13	5,14
Wool	6,56	1,12,63	68,95	4,95	5,30
TOTAL ...	15,43	2,07,61	1,28,39	20,69	21,70
Apparel	3,68	71,30	42,16	9,01	14,04
Arms, ammunition, and military stores	24,22	1,05,58	1,04,36	57,92	11,85
Chemicals	5,39	22,39	11,10	12,24	8,45
All other articles...	68,11	2,43,00	1,55,81	1,84,02	2,29,45
Total Value of Government Stores	5,82,28	11,45,13	13,73,00	11,53,64	14,06,58

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[*] *Annual Review of the Trade of India for* 1921-22.—The stores held in the various departments of the Government of India alone amounted to, according to the Inchcape Report, over 58 crores of rupees.

In spite, however, of such very considerable Government activity in the domain of commerce,-which, including railways, irrigation, Post Office, Banks and the stocks on hand of material, must be involving a capital investment of some 750 crores of rupees at the least,—the trade of India could scarcely be said to be organised on the collectivist or co-operative basis; or even that the Government of India looks at all with favour upon such trading. They carry on these collectivist activities under an apology as it were. They are unable,- at least in the present generation-to recruit their officers from a class which would rise wholly superior to temptations of personal gain in carrying out their public functions. A contract for coal supply to Indian railways at the abnormally inflated prices of 1920 concluded at a stroke for 5 years cannot but suggest unpleasant reflections as to the competence or motives of the authorities responsible for such a measure; * while the policy of bluff in cases like that of the specific charge against the Indian Government brought about publicly by the chairman of Directors of one of the Indian steamship companies cannot possibly place collectivist enterprise as conducted by Indian Government in an amiable light. † The explanation is not difficult to seek. The Government of India is foreign in feeling and composition, is irresponsible by constitution, and unresponsive by temperament, to the public opinion of India. It is, therefore, suspected invariably for these reasons, though sometimes unjustly and often on insufficient evidence, of *arrière pensées* in all their activity disloyal to the Indian interests. As such, even if it wanted to extend its sphere of activity, though I for my part doubt if they have any such intentions, so as to regulate commerce and abolish the middleman with all his commission, somewhat on the Russian pattern of collective bargaining, it is extremely doubtful if it would be supported in its efforts by the people of India. The economic reasoning thus joins hands with political considerations in demanding, as the first step to any real progress in India on the lines of nationalisation,—the complete nationalisation of the Government of that country.

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* "Our attention was drawn to the fact that, in some cases, long term contracts for the supply of coal had been entered into at high prices, and we consider it is open to question whether placing of long term contracts is desirable." Para 14, Pt. II of the Inchcape Committee Report. A sense of public propriety has made the Committee unduly circumspect; while the fear of the law of libel makes a private individual ruinously timorous. Otherwise the present writer could cite from his own experience some highly circumstantial evidence reflecting very discreditably on some of the highest public functionaries in India.

† See the speech of the Chairman of the Scindia Steam Navigation. Co. Ltd. at the annual General Meeting on October 31st 1922.

PART III.

Tariffs in India.

Chapter X.

TARIFFS AND INDUSTRIAL DEVELOPMENT.

LXXVIII. FOREIGN EXPERIENCE.

That Tariff legislation has played a very considerable part in the industrial development of modern communities is amply proved by experience in more than one country in all parts of the world. In less than 50 years, Germany and the United States have wrenched the mastery in industrial concerns from the United Kingdom, till that country had fallen to the third place amongst the industrial nations of the world before the War. The United States had, no doubt, advantages which were denied to European countries, in that it was at such an enormous distance from European complications of war and peace. The premier nation of America was thus free to develop her immense resources which the luxurious varieties of the races coming to inhabit the new continent did a great deal to promote. Starting as a child of revolt against the absolute exclusiveness of the colonial regime, the United States were naturally ardent free-traders in the first generation of their industrial freedom. But even in the first generation they were not content merely to develop the agricultural possibilities, and simply to supply the food-stuffs and raw materials of the European population and manufactures.* From 1819 to the Civil War, the Tariff history of America shows an almost rhythmic variation for and against complete freedom of trade. But in the generations that followed the Civil War there was no flinching in the determination to protect and build up the native industries of America at any cost. The following table compiled from the British Census of Production of 1907 and a similar American Document of 1909 is an eloquent testimony to the results of at least two generations of active tariff manipulations in favou ror for the protection of national manufacture. Except in the three first instances America was leading in every line of industrial work 15 years ago; and even in the three exceptions she has made up the lee-way since then :—

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* For a detailed description of the tariff vicissitudes in the United States and their effect upon American industry from the first year of the New Republic, see the *Tariff History of the United States* by Taussig.

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[*] For a detailed description of the tariff vicissitudes in the United States and their effect upon American industry from the first year of the New Republic, see the *Tariff History of the United States* by Taussig.

	United States in 1909.	United Kingdom in 1907.	Superiority.
	£	£	
Shipbuilding & repairing exclusive of warships...	14,672,000	41,039,000	British 3-fold.
Cotton goods	125,678,000	132,000,000	,, 5%
Dyeing & finishing textile.	16,711,000	18,000,000	,, 8%
Brewing & Malting ...	82,616,000	67,254,000	American 25%
Soap & Candles ...	22,898,000	12,707,000	,, 2-fold.
Cocoa, Chocolate & Confectionery	31,437,000	16,171,000	,, 2 ,,
Matches	2,271,000	862,000	,, 2½ ,,
Paint, colours & varnish,	24,978,000	9,127,000	,, 2½ ,,
Railway carriages and waggons	24,746,000	9,850,000	,, 2½ ,,
Pens & Pencils	2,539,000	791,000	,, 3 ,,
Hats & Caps	16,598,000	5,256,000	,, 3 ,,
Clothing	190,566,000	62,169,000	,, 3 ,,
Glass & Glassware ...	18,419,000	4,899,000	,, 3½ ,,
Cement	12,641,000	3,621,000	,, 2½ ,,
Leather tanning and Dressing	65,575,000	18,289,000	,, 2½ ,,
Paper	53,531,000	13,621,000	,, 4 ,,
Gloves	4,726,000	1,056,000	,, 4½ ,,
Hosiery	40,029,000	8,792,000	,, 4½ ,,
Boots & Shoes	102,357,000	20,095,000	,, 5 ,,
Cutlery & Tools ...	1,653,000	2,047,000	,, 5 ,,
Card-board boxes ..	10,970,000	2,067,000	,, 5½ ,,
Wooden furniture ..	43,207,000	7,684,000	,, 5½ ,,
Butter & Cheese ...	54,911,000	10,164,000	,, 5½ ,,
Fertilisers	20,794,000	3,552,000	,, 6 ,,
Silk goods	39,382,000	5,345,000	,, 7½ ,,
Pianos, Organs &c. ...	17,957,000	1,865,000	,, 9½ ,,
Firearms & Ammunition.	6,822,000	677,000	,, 10 ,,
Clocks & Watches ...	7,039,000	613,000	,, 11½ ,,
Motor Cars	49,840,000	3,585,000	,, 14 ,,

And as though that was not enough protection, the practical monopoly which the American industrialists obtained of the European markets during the war is sought to be maintained even now by the intensive protectionism of the Fordney Tariff passed in 1922, in spite of all the complications or impediments which such a measure may *a priori* be calculated to create as regards the liquidations and payments of debts due to America.

If the United States was rich in man and materials, no such initial advantages could be claimed by Germany, which, however, has built an industrial and agricultural prosperity chiefly due to an intensive tariff legislation for the protection of domestic industries. German statemen of the post. Napoleon era were certainly impressed by the exponents of the *laissez faire* system of political economy; and the *Zollverein* was the result. But the importance of this experiment lies in the lesson it teaches of the immense possibilities of successful protection in countries of large extent with the diversity of geographical and climatic conditions. Protection for a small country would be suicidal in the absence of special or exclusive advantages. Theoretically the advantages of Free Trade are undeniable. But if a world-wide freedom of exchange cannot be accomplished in view of the existence of nationalist rivalries, the next best thing would be complete freedom of trade within such a large zone that could justly by regarded as a distinct geographic unit like India or the United States. The German statesmen instinctively recognised the truth of this principle of economic development which, however, was not clearly expressed by the economists of the Manchester school. Germany was, therefore, a free trader of a sort, we may say, 1842 when the German customs union was governed, till 1879 when Bismark from threw over the Free Trade policy. From the latter date to the outbreak of the war, Germany was an example of a thorough-going protectionism which was equalled, if at all, in the United States, and surpassed nowhere else. As to the achievements of such a policy, we need only refer to the following tables of the increased production in Germany between 1870 and 1913, both in agriculture and in industry * :—

Year	Production in Germany in Millions of tons.		Year	(Tons) Potash has increased
	COAL	IRON		
1865	28.33	.975	1861	2,[illegible]93
1875	48.53	2.029	1871	300,747
1885	73.67	3.6[illegible]7	1881	943,963
1895	103.96	5.465	1891	1,370,013
1905	173.66	10.988	1901	3,484,865
1913	273.65	14.793	1911	9,606,900

The Agricultural production increased as

(In tons:—)

Year	Rye	Wheat	Oats	Potatoes	Sugar	Exports
1880	4952525	2345278	4228128	19466242	415000	83500000
1890	5868078	2830921	4913544	23320983	1261000	107440000
1900	8550659	3[illegible]41165	7091930	40585317	1795000	149100000
1910	10511160	3861479	7900376	43468395	1947580	239800000
1913	12222394	4655956	971[illegible]965	54121146	2632000	319800000

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* These tables have been compiled from Mr. E. Barker's *Economic Statesmanship.* For a most interesting study of Germany before the war, the works of Mr. W. H. Dawson, such as *the Evolution of Modern Germany* would be a mine of information for the student as well as the statesman.

As regards the character of the German Tariff, we need only say that it started with a modest schedule of 47 articles in 1879, which in 1902 was elaborated into 946 different articles.

LXXIX. LIMITATION AND IMPLICATIONS OF FREE TRADE AND PORTECTIONISM.

Instances could be multiplied *ad infinitum* to show the possibilities of an intensive protective policy for the building up of a country's industry. That need not imply, however, that we are totally blind to the limitations and short-comings of either of the two rival systems of national development. Scientific protection, as enunicated by List and accepted even by J. S. Mill, consists of a temporary fiscal aid given to selected industries, which, from inherent advantages of natural resources or other adventitious circumstances of equal efficacy, reasonably promised to be successful within a given period, the success being measured commercially by profits, or nationally by the strength it would bring to the community as a whole. Analysed in its constituents, such a principle would necessarily imply:—

(1) That the fiscal aid granted in the shape of high custom duties with competing foreign products be equal to the difference in cost of production within the country imposing such a tax and its rivals abroad. (2) In proportion as the efficacy of the protective industry grows within the protective country the amount of protection granted must be correspondingly reduced. (3) In any event, provision must be made for the abolition of any protection to an industry, which, having been given a trial, has either made its position good, in which case it would not need the protection, or as proved a failure, in which case protection would be unmitigated waste. The period, however, cannot be fixed by cast-iron rule in advance and must be left to vary according to the needs of different industries. (4) That protection be at all given to an industry, it would be necessary to make preliminary enquiries giving sufficient proof of the commercial possibilities for the industry demanding protection. Unless and until such a *prima facie* case is made out by a competent, responsible and independent body of investigators, it will be sheer waste of the community's energy to contemplate any plan of protection. (5) With such a *prima facie* case an don conditions laid down above, the method, and the degree of protection to the articles selected for the purpose and its substitutes must also be elaborated in reference to the general principle laid down above.

The mere enumeration of these conditions would suffice to indicate the principal limitations on a policy of protection to national industries. The chief hardship of such a system lies in the inevitable loss it involves in the shape of high prices of the taxed articles. Says the Indian Fiscal Commission.

> "The burden of protection arises from the increase in prices. It is obvious that an import duty tends to raise the price, not only of the imported article but also of the competing locally produced article. Cases

> are analysed by economists in which for special reasons or for temporary (sic) periods the normal result does not follow, or follows only partially. But broadly speaking there is no dispute as to the tendency of import duties to raise the prices of the articles taxed."*

But admitting this hardship, the following considerations, however, must not be lost sight of. (a) With the successful protection of suitable industry promising profitable development within a measurable period, the field of employment in the protecting country must unavoidably expand; and with its expansion there would be a corresponding increase in wages. The following table of wages per annum in America tells its own tale.†

1860	$ 196·00	1890	$ 301·00
1870	„ 288·00	1900	„ 285·00
1880	„ 240.00	1910	„ 350·00

If wages rise as a result of protection, the increased burden of taxation, even granting against probabilities that it falls wholly upon the working classes, will be largely if not wholly offest by their increased earning power. The net burden of protection, therefore, if any, will fall upon that section of the community which cannot be included in the suffering interest. And for them the remedy would be, either, to broaden the basis of protection so as to include every possible shade of productive industry, or, to ignore absolutely the non-productive classes as unworthy of attention, being parasites. (b) In emphasising the burdensome nature of protection under modern conditions, the fact is frequently ignored that capital as well as labour now-a-days tend to be so highly specialised that neither of them can be readily and promptly shifted to industries that need not fear any artificial regulations. Protection is usually given by one country against another more highly specialised, and, therefore, more efficient and successful in competition. But when the former starts the protectionist policy by levying high import duties, the latter must still continue to manufacture for the former's market, because it cannot readily divert its capital and labour to unprotected channels. Prof. Plehn mentions in his *Introduction to Public Finance* five cases in which the burden of the Protective Import Duties is borne by the foreign exporter of the taxed article; and among these we find that

> "when a new tax is laid on goods produced with the aid of large fixed plant for a limited market which would be lost if the price is raised. As long as the producer is unable to change the character of the plant he must pay that tax; for example, iron products from the Rhine to be sold to Sheffield." ‡

When the English classical economists elaborated their system of Free Trade, the assumption of perfect mobility of capital and labour had some truth. To-day it is less substantial than a legal fiction. If prices must and do rise as a consequence of a protective policy, the protectionist country need not and does not always bear the full burden of the protective duties. And the rise of prices will not be quite so general as an *a priori* consideration of the problem would suggest. *

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* Para 68 Majority Report of the *Indian Fiscal Commission.*

† Compiled from *Economic Statesmanship* (page 204) by J. Ellis Barker.

‡ Op. cit. page 225-227.

> "The basic error of this view, aside from the fact that neither the costs of production nor the cost of acquisition determine value, lies in treating the production and consumption of a country as fixed quantities, which may be influenced by foreign commerce in their proportional combination but not in their total amount. As a matter of fact production may not merely be increased by importation, due to the increased employment of idle capital or labour force, or to the better utilisation of those already employed through the acquisition of raw materials, but may also be reduced in quantity if it has not developed in the point of meeting foreign competition. In the examples cited above, Italy would be impelled to sacrifice its grain production also to foreign competition, as it could then obtain all its goods more cheaply from abroad; but then it would no longer have the means to purchase them." †

The case for protection, then, even admitting its invariable concomitant of a certain loss to the consumer, must rest upon the indisputable basis of developing a country's resources. If the burden occurs at all, it may be borne as either an unavoidable cost of national education in matters industrial; or be set off by other considerations. Thus it has already been pointed out that high prices is a relative term which loses its significance in face of an increasing purchasing power resulting from the increasing national wealth. It is possible that the full benefit of that increase may not be shared equally by all classes of the country. But in so far as that argument is valid, it applies to the system of *distribution*, and not to the nature of our fiscal policy. It is desirable, of course, that all classes should share alike in the increase of national prosperity. The defective system of distribution is in every country giving birth to a double set of forces; one working from below in the shape of workmen's union and socialistic ideas, which, by closer organisation, better equipment, and, in cases, more militant tactics of workmen, are forcing a recognition of their claims to a larger share in the total national output than was ever dreamt of as likely by the full-blooded representatives of the Manchester school of English economists: the other working from above, in the shape of labour or social legislation, prescribing the hours and conditions and even the minimum wages of work, together with a whole host of provisions for insurance and compensation and pensions to workmen, which must inevitably make a serious deduction from the employer's profit. These are tendencies which militate strongly against the very fundamentals of classical economics, free exchange of goods and services, whether at home or internationally. We do not suggest that the ideal of equal or even equitable distribution of national wealth has yet been reached in the most advanced industrial nations of the world. We only mention them as admitted tendencies countervailing the last lingering plea for the continuance of the old, exploded ideas of absolute freedom in exchange.)

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* "It may, we think, be taken as the view accepted by economists that a general increase in import duties tends to produce a general rise in prices in a country and not merely a rise in the price of imported articles and such locally produced articles as directly compete with them." *Indian Fiscal Commission* Majority Report para 68. This is obviously a *petitio principii.*

† cp. Grünzel *Economic Protectionism* p. 130.

The foregoing is the strongest argument against intensive protectionism. In examining it, we have considered implicitly or expressly the counter-arguments of nation-building and increased employment resulting in higher purchasing power in the protected community, side by side, with the higher cost of living. The other dangers of protectionism are rather an outcome of the special conditions of the present age than any inherent flaw in the system itself. Thus, it has been suggested that protection leads to the development of the Trust. Because in Germany and America, the classic homes of the Trust and the Combine, such combinations have grown subsequent to the adoption of the policy of protection, it does not, however, follow that trustification, if we may be allowed to coin such a phrase, is the inevitable result of protectionism. In Britain, the still more classic home of free trade, the Trust is not utterly unknown.

> "Alike in protected and unprotected markets, free competition becomes cut-throat, prices fall, and over-production ensues in the wild efforts of producers to reduce cost by a larger output. If the word normal were not appear entirely out of place in dealing with phenomena, of which we do not know all the factors and cannot evaluate all those we know, one might say that the normal course of modern trade was that prices should always tend towards the cost of production, that this tendency develops itself with increasingspeed, and from time to time ended introduction at a loss............ The fact remains that the first object with which a man enters business is to make money, and his creed is to make as much as he can.................. If any social institutions or trade methods stand in the way there would be a revolt. Such a revolt in a multitude of forms we are now witnessing, starting from the simple combined refusal to trade at a loss and leading up to a position of dominance of an industry scarcely distinguishable from a monopoly." *

The Trust is in effect the result of a desire to secure as great an economy in the internal working of an industry as would be possible by increasing the scale of operation on which the industry is conducted. It may be that the resultant combination, after securing all the economies, refuses to give the benefit of those economies to the consuming public, and charges a price calculated to bring in the utmost profits to the monopolists. But such an abuse will provoke its own specific remedy; and anti-Trust legislation in one form or another will be the consequence. But it is impossible to believe that the Trust is the logical and inevitable offspring of protectionism. The real mother of the Trust is the need for economy.

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* H. W. Macrosty *the Trust Movement in British Industry*. p. 2-3. A similar work by Mr. J. Morgan gives the same conclusion as to the reasons which go to the making of a Trust, the elimination of competition.

Protectionism may indeed act as the wet-nurse, but it cannot be regarded as the all sufficient force matrice. Should, therefore, any country be afraid of the possible outcome of a Trust in embarking upon a policy of protection, it would be more advisable for such a country to provide legislation for the formation of industrial corporations which will be kept clear of such abuses, rather than abjure altogether the entire scheme of protection, however necessary it may be in national interests.

A still another danger of an intensive policy of protectionism, now-a-days apprehended, lies in the resultant international complications. It is argued, not without reason, that the civilized countries of the world to-day are so intimately connected with one another by mutual commerce, that any policy of exclusive conservation and exploitation of its own resources by any country may quite possibly cut off some essentials of national existence from another country; and thereby give rise to retaliation in kind. Ever since 1860, when the first Most-Favoured-Nation-Treaty was signed between England and France, international politics have come to be more and more dominated by economic and commercial considerations, till even the last war has by many people been explained as being due to such forces. Political considerations of this nature cannot, however, be permitted to infringe upon the national sovereignty of each self-governing community.[*] Its fiscal policy must be determined by each solely with reference to its own requirement. International demands are capable of regulation in amicable settlement by mutual agreements and concessions. But if international amity itself is to be preserved, the principle must be accepted that wherever international demands conflict with national requirements the latter must prevail. The conflict of Nationalism with Internationalism is a feature of world politics to-day, which, I am afraid, must grow worse before it becomes better. For reasoning people there can be no doubt how the issue will ultimately shape itself. But that the essential brotherhood of mankind be generally accepted, and international commerce conducted on lines of cooperation or collectivist organisations chalked out in the previous part of this work, it is unavoidable that nationalism must have its full say in the matter. Intense nationalism as manifested by a protectionist policy may provoke resentment; but to what extent such a resentment can take the shape of effective retaliation must be left to be decided by the peculiar circumstances of each country.[†] And when nationalism has

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[*] Deleterious traffic, however, such as that in opium or slaves or the so-called white slave traffic, may be regulated by international agreements, and, as such, excluded from this principle.

[†] See the chapters in part II dealing with the analysis of the exports and imports of India as well as chapter I part II dealing with the general principles of foreign trade.

"The only remedy to bring almost the fullest development of each country's resources without injuring the interests of consumers or causing a wanton retaliation is, in our opinion, for the State to take upon itself the task of production, or at least its regulation. If the units of the League of Nations become competitive producers the classic principle of comparative costs would automatically assert itself—as in that case the confidence of equality would help to banish all suspicion of ulterior designs. International commerce would then achieved its object of so building up the local strength of each community as to endow it with a full consciousness of equality; and when internationalism has also side by side progressed so as to permit trade being conducted on normal natural lines instead of the perversion by which it would be forced into artificial channels, the danger of international complications arising out of a policy of nation-building will automatically vanish.

In examining the case for protection in general, we must, by implication, be held to have also pronounced upon the case for freedom of exchange. It cannot be denied that, if only the conditions assumed by the Free Trade economists were in fact existing, complete freedom of international trade from all State restrictions would result in the utmost gain, the distribution whereof will be most equitably accomplished by the exercise of enlightened selfishness. But the assumptions are only assumptions. They have, in fact, seldom been fully realised in the case of any country. The root mistake of the Free Trade philosophy lies partly in this haste to assume as existing what has merely been imagined for the convenience of their logic, and partly in the inability to perceive the demands of national solidarity. Complete freedom of trade, especially between two unequally developed trading nations, would mean a dissipation of resources, particularly for the weaker and less developed nation, which could not be compensated by the theoretic possibility of the total gain being larger. Whether we consider the possibility of a breach in international amity,—under which, of course, freedom of exchange must be considerably curtailed for political reasons, though the average free-trade economist never quite allows for this contingency,—and so require the provision of all essentials of national existence being supplied within the nation itself; or whether we contemplate the purely economic phenomena of distributing the gains resulting from commerce, the free-trade reasoning will do well not to overlook many vital factors of every day life. Nations cannot afford, any more than individuals, to be philanthropists; though no one would deliberately try to pervert or suppress any manifestation of instinctive generosity of an enlightened people, as it has, in fact, manifested itself in the past in the suppression of Slave Traffic, and the regulation of commerce in deleterious drugs like opium or cocaine. The following critique from List is as true to-day as it was when it was first penned.

> "The school fails to perceive that under a system of perfectly free competition with more advanced manufacturing nations, a nation which is less advanced than those, although well fitted for manufacture, can never attain to a perfectly developed manufacturing power of its own, nor to perfect national independence, without protective duties. It does not take into account the influence of war and the necessity for a protective system........

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*(continued from p. 256.)

follow the national line of a territorial division of labour, the exchange between the trading nations being effected on the collectivist basis, and governed by treaties taking the plan of innumerable individual contracts. "(Ref : *Sixty Years of Indian Finance*, page 253.).

It seeks to adduce the benefits which result from free internal trade as a proof that nations can only attain the highest degree of prosperity and power by absolute freedom in international trade; whereas history everywhere proves the contrary."[*]

LXXX. OTHER AIDS TO INDUSTRY BESIDES TARIFF.

The task of nation-building cannot be accomplished merely by tariffs, however intensely protective they may be. Unless the environments and the conditions of the nation, intent upon building up its prosperity by such collective action, assure it of a solid foundation for the success of such measures, it would be absurd to hope that by merely increasing the duty on import articles or restricting the exports a country can minister to its own prosperity. The other conditions, besides tariff manipulations, which have at least an equal say in the economic development of a country are, it is true, not so well advertised, but they are none the less equally if not more effective. The existence, for instance, of raw materials and sources of energy are obvious postulates for any successful industrial ambition of a nation, and still less visible though still more important. The existence of population enlightened and enterprising enough to justify the adventure must also be presumed. Social legislation or social institutions, moreover, which would draw out the best in the inherited and acquired skill of the people, as well as the national resources of the country, are indispensable to attain the same goal.[†] It is, therefore, but fit and proper that in every country, intent upon rapid material development of the nation, stress be laid upon improvements in educational establishments, particularly technical schools, industrial exhibitions, patent laws, transport and banking facilities,—all so managed as to minister to the one supreme aim in view.[‡] In fine there are measures or institutions, which, even if they are ineffective by themselves, would be indispensable to make active exertions of more specific kind for national development successful; and may be employed even in countries which do not approve of tariff legislation with a protectionist bias.

LXXXI. ALTERNATIVE MEASURES TO TARIFFS.

Apart from these general measures of a socio-economic description calculated to promote national industries, we may also mention some special measures, which are, generally and in intention, of the same category as the protection customs duties.

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[*] *The National System of Political Economy* by List, translated by S. S. Lloyd Ch. XVII page 253. Even Adam Smith, the father of English classical or Free Trade economics, allows three exceptions for special protection to internal industry, viz; by way of retaliation, by way of defence of the nation and as a means of equalisation. Say's addition has already been mentioned above.

[†] See part I (B) relating to the influence of the Mogul court on the industry in India.

[‡] See para. 122 et seq. the *Indian Fiscal Commission Report*, relating to greater industrial buyers in primary education in the training of apprentices, the improved nobility of labour, manipulation of railways and shipping rates as all calculated to assist besides tariffs in the task of industrial development.

We must admit that protection to a country's industries does not necessarily or exclusively consist in a manipulation of the fiscal system. According to the difficulties of each industry in question must an appropriate measure of protection be applied, just to meet that particular set of difficulties. An industry may want more efficient labour, and accordingly must be proposed measures of better technical education, a wider system of apprentices etc; or it may want capital facilities, and accordingly must be proposed schemes of special industrial banking or amendment of the law regarding negotiable Instruments or Joint—Stock Companies; or it may require an assured market and accordingly must be suggested a system of preferential purchases by Government from the home producer; or it may need more direct aid in the initial years of its struggling into existence, and accordingly must be devised a scheme of bounties or subsidies; or it may call for special means of protection against products of unfair competition, and may accordingly originate special anti-dumping legislation or even prohibition.*

Taking some of these measures mentioned above seriatim we might take bounties and subsidies as the most important measures of national protection or assistance to domestic industry by means of active state aid. Japan wanted to build up a ship-building industry, or Germany, a beet-sugar industry. In either case, mere manipulation in the Tariff schedules would not have served the purpose. They, therefore, resorted to bounties. The Indian Fiscal Commission has specifically recommended :—

> "If, however, any further State assistance appears to be required in the initial stages, we think that it should, as a rule, take the form of bounties, or such other forms of assistance as are recommended by the Indian Industrial Commission." †

But against the general use of bounties as a form of protection we would enter the following observations of practical difficulty. Bounties are a form of direct state expenditure, which, however useful the object for which they are granted may be, must necessarily be limited by the available resources of Government. The present position of the Indian Government, for example, gives very little reason to hope that, if depended upon, this form of protection would go a long way in assisting new industries to be born. The epigram that the true line of action for a protectionist policy would be to "nurse the baby, protect the child, and free the adult"* leaves no room for the care and protection of an embryo, which, for aught we know to the contrary, may be fraught with the greatest possibilities. We cannot agree to the suicidal implication of stifling the embryo or inducing on abortion, merely because of the possible pangs of birth-giving. Further, the bounties, even when the ease in national finance permit their being granted, would necessarily be in driblets, and remain always contingent upon the financial ease being maintained. Such a proceeding would be inconsistent with the problem of developing the industries—like ship-building—on a scale commensurate with its national importance. Bounties, being a direct demand upon public revenues, have no doubt a double advantage; their burdensome nature is immediately perceptible, as contra-distinguished from the burden of customs duties, which, being shifted, are impossible to trace in their ultimate incidence; and as such the moment bounties become superfluous the pressure of the tax-payer, at least in a responsible democracy, may be trusted to see to their abolition or diminution. And secondly, they are capable of being applied just to those industries which are known and admitted to be promising; and just to that extent, which is considered to be necessary. Bounties are, as a rule, less popular, though more effective; less regular, though, when granted, more dependable; less injurious though in their incidence more direct and specific. The first scientific protectionist of the world, Friedrich List, says:—

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* Says the *Indian Fiscal Commission*, Para 102, *a propos* of assistance to new industries "not only in our view are these strong objections as a rule to granting tariff protection to new industry, but a grant of such protection is really unnecessary." This is a radical misconception of the fundamental position as elaborated by that very body and as pointed out in para 97 of the identical document. An industry, may be perfectly suitable on any one or more of the considerations mentioned in that paragraph, and yet be prevented from being started in this country by the stress of foreign competition. Its prospects and possibilities may not be a matter merely of the promoter's anticipations, but a statement capable of definite, objective matter of national importance, independent of any advantage it may be calculated to bring to its first promoters. Ship-building of the modern type is an instance in point. For such an industry to be effectively developed, other forms of state aid and protection, such as reservation of the coastal trade for the Indian-owned and Indian-built vessels, or the grant of bounties and subsidies per tonnage constructed or voyage accomplished, would have to be combined with fiscal protection.

† Para 102, Majority Report, *Indian Fiscal Commission*.

> "Bounties are objectionable as permanent measures to render the exports and the competition of the native manufactories possible with the manufactories of further advanced nations in the neutral markets; but they are still more objectionable as the means of getting possession of the inland markets for manufactured goods of nations which have themselves already made progress in manufactures. Yet there are cases where they are to be justified as temporary means of encouragement, namely, where the slumbering spirit of enterprise of a nation merely requires stimulus and assistance in the first period of its revival, in order to evoke in it a powerful and lasting production and an export trade to countries which themselves do not possess flourishing manufactures." †

Another similar experience of state-aid in national industry lies in the grant of concessions or monopolies, particularly in developing the mineral wealth and providing special transport facilities. Being restricted in their character, such special concessions and monopolies may not prove as objectionable as their real nature and economic analysis would suggest them to be. For it seems to be more and more clearly recognised tha monopolies of this kind,—even when the industries in question are not operated directly by the state itself,—must be regulated. And, such regulations may not be satisfied merely by laying down the maximum charge involved upon the consumer, or the maximum charges for the commodity or service monopolised. The mineral and the forest wealth of most countries is even now hardly fully understood. Its surrender to private enterprise for exploitation would seem to be a suicidal step, not only because it deprives the community of its legitimate right to the exploitation of its inherited patrimony for the common benefit, but also because it creates complications for future generations as regards compensation to vested interests that need not at all have been created. It is only when we remember the considerations for providing men and money required, initially to open up such enterprise that we feel inclined to moderate the censure upon an otherwise indefensible state. With its other obligations, and existing demand upon its Treasury a modern state finds it increasingly difficult to provide the capital or command the man-power necessary for such operations. And so perhaps special creations of state established monopolies or concessions may be recognised as effective means of national development.

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* Evidence of Lala Harkisen Lal before the *Indian Fiscal Commission*. See the comments thereon in the March (1923) number of the *Economic Journal*.

† List Op. cit. p. 252.

The other similar measures tending towards an identical goal cannot be reviewed at length in this summary with any chance of doing justice. They comprise: banking and credit facilities, manipulations of railway rates and shipping freights, and indirect aid in a hundred other forms, the real utility of which it is often impossible to measure in terms of pounds, shillings and pence.

LXXXII. THE REAL DANGER OF ACTIVE STATE-AID TO INDUSTRIAL DEVELOPMENT.

The doctrinaire free-trader objects to active state exertion for the promotion of national industry, not so much because he would not that industry be developed in a community by artificial means; but rather because he cannot override his instinctive dread of state action. He follows the mid-nineteenth century philosophers in believing the state to be a necessary evil, whose influence, however, must be confined by every intelligent community within the narrowest possible sphere. It is an entirely erroneous view of the state in an enlightened democracy,—or even, for the matter of that, in a benevolent despotism, if the latter is not a contradiction in terms. The real danger, however, of an active state-aid for the building up of industry lies in an entirely different direction. Should industry develop by such means under the aegis of private enterprise, a much more serious problem in distributive justice would have been created, of which the doctrinaire free trader usually takes no cognisance. Nation-building of this type cannot be accomplished without a commensurate sacrifice. But with private enterprise dominating industry and commerce, the burden of such sacrifice would be sure to be most unevenly distributed. The concentration of riches, in ever increasing proportion, in a steadily diminishing number of hands, brought about demonstrably by such active assistance granted by the community collectively, intensifies the class clevage that is universally regretted as the most undesirable feature of modern industry. The only solution that I can think of for avoiding the otherwise certain disaster would be frankly to accept the socialistic principle of collective enterprise, at least in new industries where no vested interests are concerned. Thus in ship-building, or ordnance manufacture, in India, there is as yet practically a virgin field for state enterprise. It is a proposition, which I think few will dispute and none can refute, that an Indian shipping enterprise is essential for the successful realisation of the economic ideals for this country. But hardly any private enterprise can stand the strain of a competition the interests now in command of the shipping business of India could mobilise against a private Indian venture. * To assist such private enterprise in making its position good against the likely competition, by all the expedients that the collective might of the community can devise and apply, would be doubly injurious. Not only because the full benefit of such expedients will be most unequally distributed as between producers and consumers, capitalist employers and their wage-earning employès, the entrepreneur in particular and the community in general; but the dangers of over-production and internecine competition will be almost impossible to be guarded against. If the state in India, as represented by the Central Government, † undertook the construction and running of a fleet of vessels adequate in size and number to the needs of the Indian sea-borne trade, it could concentrate the ship-building business just to the few most suitable centres, thereby secure the fullest economy in construction on the largest possible scale; ‡ and at the same time so manipulate the carrying business of India as to provide the most economical loading—combined with frequency and regularity of service—by the least number of boats required. A great deal of waste could

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* During the boom period of 1919-20 several steam-ship companies were floated in India; but, with the exception of the Scindia Steam Navigation Company, practically every one has hauled down the flag. Even the last mentioned concern, though it seems to have made good its existence, has achieved that feat by joining the Conference lines in a common exploitation of the Indian trader. It is hardly to be expected of the private capitalist that he should be able to rise above his personal greed and search for profits. I doubt if expedients, like the one now before the Indian Legislature, delegalising the system of Deferred Rebates, and reserving the coastal trade of India for Indian-owned vessels, would really serve the true purpose of national economy, so long as the benefit of all such measures is to go to private capitalists.

† We prefer the Central Government to undertake the task, not only because of the analogy with the other means of communications, but also with a view to avoid needless inter provincial jealousies.

‡ The largeness of the scale of operations would be visible in the number of the ships built and repaired, rather than in the size of the individual vessel turned out. Production in India—both in agriculture and industry—is still organised on very small scale; and for the transport of produce turned out by such small men, it would be ever so much more economical to have a large number of small ships, than a smaller number of very large vessels, with, in the aggregate, the same tonnage.

thus be avoided. The state aid can be afforded in the directest, simplest, and most effective form of a complete monopoly, as in the case of the railways within the country. As the number of shippers would be certain to be much more vocal than the interest of the state monopolist, we may be sure that the public representatives would see to it that the state monopolist takes no undue advantage of the shipper of goods, or of the passengers. In any other form of assistance to this most important industry, there is almost a certainty of most undesirable complications.

What applies to this one instance of ship-building, applies with equal force to every other new industry, capable of operation on a large scale. But state-aid cannot, in practice or on principle, be confined to new industries only. Older industries exposed to unfair competition, and, with all their promise of success, threatened with extinction, would also demand attention in a consistent scheme of national development. But in their case active state aid of the type we have reviewed would constitute a great danger, in as far as it would be made to minister only to private profit. The collectivist principle could in their case be applied only if we succeed in negotiating safely the shoals and rocks of expropriation and compensation. An easier method of husbanding the benefit of active state aid would be the use of the co-operative principle, which, even if it does not altogether eradicate the virus of private property as the basis, and personal gain as the motive, for industrial expansion, is yet suitable enough to minimise these evils. The benefit of a protectionist customs tariff would, no doubt, go equally to the co-operative as to the capitalistic enterprise. But the other kinds of aid offered by the state,—credit and conveyance facilities, subsidies and bounties, preferential treatment in internal taxation,—may certainly be reserved for an organisation which threatens the least complications for the future. Hence, the admitted and undeniable dangers of public aid in industrial development are capable of such an adjustment as to be entirely neutralised, or of the least possible injury in practice, if only the authority responsible for the supervision and guidance of the economic system treats the problem as a comprehensive whole instead of breaking it up into parts.*

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* This is the root vice of the existing system of Government in India. They seem to take an almost impish delight in dismembering a problem of national life, and presenting specific faults for special consideration by commissions of inquiry, whose utility is largely neutralised in advance by such a policy. In 1916 the Industrial Commission was appointed to consider the means of industrial development without the right to pronounce upon the tariff needs; in 1921-22 the Fiscal Commission wasted precious lakhs of public funds to consider only the isolated issue of tariffs. The Acworth Committee on Railways was excluded from discussing other means of transport, and the Inchcape Committee on Retrenchment was debarred from scrutinising the revenue side of the national financial system. These are intricately and intimately connected problems. To separate them might mean convenience in discussion; but it also means, quite certainly, needless obscuration of some most important issues that could only be seen when we consider mutual reaction of inter-connected topics. The economic problem is vast enough to cause dispair if we demand its being treated as a whole; but even if all the possible faults of the economic life of the country are not discussed comprehensively by a single department of Government, such obviously related problems need not have been split up at all. Until this most harmful policy is recast, there will always be the danger of a needless waste of national energy resulting from an undue emphasis on some selected aspects of the question only.

Chapter XI.

A SHORT HISTORY OF THE INDIAN FISCAL POLICY.

Upto the year 1846 there were considerable variations in the customs of the different provinces. In that year, however, the Court of Directors of the East India Company sent a dispatch laying down the principles on which customs duties ought to be regulated. The situation was reviewed just before the Mutiny, but nothing came of it until in the year 1859, when the question of restoring the financial equilibrium, upset by the late Mutiny, became pressing. The points then coming up for consideration were (a) the equalisation of duties on British and foreign manufactures by raising those on the British goods to foreign rates, (b) the abolition of export duties, and (c) raising of import duties. It will be convenient to consider separately the import duties, the export duties, and the counter-vailing excise duties. *

LXXXIII. IMPORT DUTIES.

In his first budget, Mr. Wilson proposed to raise the general Import Tariff to 10 %, except wines, tobacco and spices which were to be taxed at 20 % *ad valorem*. (Act VII of 1859). In view of many complaints from vested interests in England, especially in the cotton business, the general duty was lowered to 7½ *ad valorem* ; while the duties on cotton manufactures of all kinds were fixed at 10 % and those on cotton yarn were raised from 5 % to 10 % and those on piece-goods reduced from 20 % to 10 %.

Between 1860 and 1867, several slight modifications were made in the Tariff policy. Thus in 1861, Mr. Samuel Laing, the then Finance Minister, reduced the duty on cotton twist and yarn. This is the beginning of the policy of the Government of India by which they identified themselves with the interests of the English cotton industry as against the Indian, and of that policy of the rigid application to India of the English free-trade principles which were to prove so detrimental to the Indian industries, just then growing up. Mr. Laing wanted to save the latter from the "fatal boon of a temporary and precarious protection"! The next year he succeeded in restoring—at the expense of an increase in the salt duty—the duties on cotton piece-goods and yarns to their old rates of 5 and 3½%.

Important changes, following the recommendations of the Tariff Committee, were made in 1867, *viz.*, revised valuations of goods, specially cotton piece-goods and twist, a new classification of articles subject to duty, and a considerable augmentation of the free list. Some minor articles were freed, and valuations reduced, between this year and 1875. This finishes with the first period (1861-75) characterised by the beginning of that movement towards the pushing forward of the interests of Manchester at the expense of those of India, a movement which from 1875 to 1900 (and even upto date) was the subject of a violent controversy, between the uncompromising doctrinaire free traders of Great Britain and the passionate protectionists on this side who based their stand on India's financial and economic interests. The average annual returns from customs were £ 2·2 millions, barely 6 % of the total revenue, at a time when the Government was in dire want of fresh sources of revenue.

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* This brief historical sketch has been epitomised from the *Sixty Years of Indian Finance* by the present writer, and *Our Fiscal Policy* by Prof. C. N. Vakil.

The second period 1875 to 1898 is characterised by a policy of remission and reduction of customs duties with the ultimate object of establishing an ideal freedom of trade, in the teeth of protests from Indian leaders; and the government came as near success as they dared, considering the state of the finances. We shall briefly review the history of the period.

In the year 1874 the Manchester Chamber of Commerce addressed a memorial to the Secretary of State for the total and immediate repeal of the duties on cotton imports into India, on the ground of their baneful operation on commerce, and in the best interests of Her Majesty's subjects both in India and in England. They alleged that under the protection extended, a large number of mills were being projected, that the revenue on import duties would consequently diminish, and that the impost would therefore defeat its own object, not to speak of the ruin that would accrue to the English industry out of the "competition," and "the injustice that would be inflicted on the consumer by an increase in the cost of the articles of clothing to the poorest of the population of India which would thereby interfere with their health, comfort and general well-being etc." This sums up the Manchester argument which has been repeatedly put forth in one form or another, throughout the period; and which, therefore, we have quoted at some length.

In response to Manchester a Tariff Committee was appointed in 1874. The Government of India denied that any protection was given to any industry, and declared that only revenue considerations weighed in the imposition or maintenance of customs duties. And the Committee upheld this view-point. For it found that there was no "competition" between the coarse fabric manufactures of Indian mills and the finer fabrics of Lancashire. Each catered for a different market. The Committee, however, recommended a further devaluation, and the lowering of the import duties from 7½ to 5%; and these were done by the Government of India in 1875.

A change in the English Government had in 1874 brought Lord Salisbury to the Secretaryship of State for India. His Lordship was naturally indignant at these measures, and urged upon the Government of India the necessity of removing import duties on cotton manufactures in conformity with the policy which the Parliament, "after mature deliberations" had sanctioned. He also did not approve of the duty on American and Egyptian raw cotton imported into India. For once the Government of India were bold enough to complain of the unprecedented interference from England in their fiscal legislation, and to declare that the removal of the import duty was contrary to the interests of India, especially of the Indian finances. The reply of Lord Salisbury contains a paragraph which has been much quoted. "Whether, then, the question be regarded as it affects the consumer, the producer or the revenue, I am of opinion that the interests of India imperatively require the timely removal of a tax which is at once wrong in principle, injurious in its practical effects, and self-destructive in its operations." It was definitely laid down that the abolition of those duties should have priority over every other form of fiscal relief to the Indian taxpayer.

The Secretary of State found willing helpers in the new Viceroy, Lord Lytton, and the new Finance Member, Sir John Strachey, who was even ready to move faster than was required. From this time the controversy may be said to have ended in a defeat for India; and the story of what follows is one of an unopposed yielding to the policy of Lord Salisbury and the English Free Traders, in one commodity after another, until complete free trade was established in 1882.

First came all cotton goods of 30s, and over; these were freed in 1879. Then came yarns technically known as 25s water and 42s. mule; though of a finer quality, and therefore not likely to compete with Indian manufactures, they too were placed on the free list. But this measure was opposed by a majority of the Viceroy's Council, and it was only by setting aside their opinion, in exercise of the extraordinary powers vested in him, that the Viceroy, Lord Lytton, was enabled to pass the measure. The Commons upheld his action. The trade in the exempted goods increased, and that in the finer classes decreased with a consequent loss of 20 lakhs to the Indian revenues. The *coup de grâce* was delivered in 1882 when Lord Ripon's Government, emboldened by a surplus, repealed all the remaining cotton duties. As the cotton duties formed the principal part of the customs revenue proper, there was now no sense in maintaining the other import duties which were likely to be more vexatious than profitable. Accordingly, the general import tariff was also given a go-by at the same time.

The triumph of free trade was never more complete. The village industries of India were killed; and the few manufacturing industries which had just then begun their precarious life were "free" to compete with the advanced industries of England and the protected industries of the rest of the world. The free trade regime in India lasted from 1882 to 1894. The net customs revenue which was at £ 2.5 millions in 1875 fell down to £ 0.8

million in 1884, and during these twelve years averaged about £ 1.2 millions —and this at a time of great famines, wars, and the falling rupee.

Between 1882 and 1894, with the exception of a small duty on petroleum, no import duties were imposed. But no sooner were import duties abolished than the Government found itself in dire want of money. The salt duty was increased; the famine grants were now and again suspended; the provinces were frequently asked to contribute; and so for 12 years the Government managed to pull on with admirable tenacity. But at last the crash came.

In 1894, owing to the heavy fall in exchange, the Finance Member was faced with a deficit of 3½ crores of rupees; and he was compelled to re-introduce the general import duty of 5%. But at the bidding of the Home Government the cotton goods and yarns were exempted! This created a great storm in India and also in the India Council, but ultimately the Government of India had to submit to the arbitrary decision of the Secretary of State. It was evident that the exemption could not last long. Mr. Westland, the Finance Member, proved, beyond the shadow of a doubt, that the Indian manufactures, at any rate 94 % of them, were absolutely outside the range of any competition with Manchester, being coarser stuff (24s. and under); and that as for the remaining (of 26s. and over) India only had 2% of the market for finer goods to Manchester's 98%. India producing only Rs. 86 lakhs worth to Manchester's exports (to the East alone) of Rs. 24 crores. It was, therefore, proposed to tax cotton piece-goods at 5% *ad valorem*, yarns of 24 counts and over at 3½%, and to levy a countervailing excise duty of 3½% on all machine-made yarns of 24 counts and over made in the Indian mills. These proposals were embodied in legislation except that, to appease the apprehensions of the Secretary of State lest the Indian mills showed profit by producing cheaper goods from yarns taxed at 3½%, as against similar imported goods taxed at 5% the duty on yarns was raised from 3½ to 5%, and the line drawn at 20 counts. The excise duty was similarly raised.

But even then the English and Scotch manufacturers were not satisfied; for the Indian mills paid duty on the yarn-value while they themselves paid on the value of the finished goods, which was higher. Hence in 1896, cotton twist and yarn of all kinds were exempted, and a uniform duty of 3½% was imposed on woven goods of *all* counts, whether imported or manufactured here. This measure greatly exceeded its predecessors of 1879, 1882 or 1894, in subordinating Indian interests to those of Manchester, which had the gratification of seeing that she had left no possibility of even a nominal competition on the part of her Indian rival. These measures have, therefore, left in the Indian mind imperishable memories of a bitter wrong. The net customs revenue increased from £ 1.2 millions on an average in 1882-94 to about £ 4.5 during the next four years.

In the third period 1898 to 1914, we have not much changes to note. The cotton duties, fixed in 1896, remained the same till 1917. The decline in opium revenue, owing to the agreement with China, necessitated some increase in the duties on liquors, tobacco, silver and petroleum in 1910—1911. On account of these changes, customs revenue steadily increased from £ 4.7 millions in 1909 to £ 7·2 millions in 1913 ; and averaged £ 4.7 millions during the whole period.

It may be noted, *en passant*, that it was during this period that the question of Imperial Preference was first mooted and discussed as a problem of practical politics. But the idea was rejected by Lord Curzon's Government in 1963 (ch. his dispatch of 22nd October 1903 and Sir Edward Law's famous minute).* In the Imperial Conference of 1907, again, the official view was expressed against India joining any system of Imperial Preference.

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* "The net result is that Indian Exports to a value exceeding 38 millions sterling, approximating to one-half of the entire volume of our Export Trade, are admitted free of duty in the consuming markets, while of the remainder a considerable proportion is either subject to relatively moderate duties, or, as in the United Kingdom, to duties imposed for purely revenue purposes, and with no attempt to differentiate against us." (para 8 of the Government of India despatch of October 1903). This was quite properly ascribed by the Indian Government "to the nature of the bulk of exports, which consist in great measure of raw materials which are an object of importance, if not of necessity, to the importing country." (Ibid).

The following is Sir Edward Law's conclusion with regard to the Tariff question in India:—

" Before attempting to draw any conclusions from the above examination, of such facts as can be ascertained, I must once more insist that information at our disposal for a correct appreciation of all the numerous points involved in the question under consideration is insufficient. It requires to be supplemented by inquiries as to the uses to which Indian produce is put when received in foreign markets; and without such full information in this respect as could only be obtained by local inquiries in the different countries concerned, we cannot say with certainty how far, in case of a tariff war, each individual country could afford to assume an aggressive attitude, hampering the supply of raw materials required for its industry. At the same time I feel sufficiently confident that with the great majority of countries with which we trade, and as regards the very great bulk of our Exports of raw materials, we are not only in a safe position, but we could even afford in certain instances, ourselves to assume an aggressive attitude by going so far as to impose Duties on the exportation of produce they require for their industry. This is not the case with every country, or by any means with regard to all classes of produce exported, and with possible exceptions in the case of Russia, Austria, Germany, and Belgium, it seems to me to be more in Indian interests to leave matters as they are, than to embark on a new fiscal policy, unless indeed, by its adoption very great advantages could be obtained by preferential discrimination in favour of exports to the United Kingdom and British Colonies and possessions.

The situation appears to me to be this, that India could probably give without serious danger some small preference on her present low tariff rates on Imports from other parts of the Empire; but she has little to gain by so doing, and would incur a risk of difficulties with her foreign customers in proportion to the extent of preference given in a system of inter-imperial preference and to the rates of tariff on which it was given. If we were to raise our average tariff rates to, say, 10%, (which I would not in any case recommend) so as to give an appreciable preference of 20 or 30% to our Imperial relations, such a difference might so affect our import trade with our foreign customers for exports, that they would necessarily consider the advisability of retaliation; and we might be landed in a series of tariff wars the results of which we cannot foresee with certainty. On the other hand such very small preference as might probably be given with fair prospects of safety, on generally low tariff rates, would hardly be likely to afford such advantage to British Manufacturers as would prove of material benefit to their interests, We may now briefly notice the fiscal changes, as well in the rates as in the policy itself, introduced in the fourth and last period 1914 to 1922. For the first two years of the war no additional taxation was imposed; but in 1916 it was thought unwise to go on with uncovered deficits. Among other measures the tariff rates were also increased. The general rate was increased from 5 to 7½ %. Sugar was taxed at 10%, and the free list materially curtailed; while the special duties on arms, liquors, tobacco and silver were heavily increased. But cotton goods! There came the rub. The intensity of the Indian feeling in the matter was gradually appreciated by the Anglo-Indian mind. Sir William Meyer's apology for not increasing the cotton duties was that the raising of this contentious question at a time when the Empire was involved in a life and death struggle would be most

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(continued from p. 268.)

Two important points must, however, be borne in mind in considering the whole question—first that most of the foreign countries, which would be likely to resent the introduction of an inter-imperial preferential tariff, are interested both in obtaining our raw materials and in supplying us with their manufactures, and that this situation gives us a double weapon to use against them if necessary; second, that the percentage of profits on manufactured goods is as a rule considerable and consequently trade in many manufactured articles might not suffer appreciably from a small percentage of the cost of production of raw material and produce would seriously check importation, unless the supply of such commodity were necessary for important industries, and were so limited as to partake of the nature of a monopoly. I have already shown that a large proportion of Indian exports consisting almost entirely of Indian raw materials and produce is of that nature.

I have indicated as far as possible how far it would appear such advantages might be obtained; but in existing circumstances and in view of the fact that our exports consist almost entirely of raw material and produce, it does not appear probable that materially important advantages could be offered to us under a system of preferential tariffs in our favour adopted for other parts of the Empire. The gain to the United Kingdom would probably be considerable as also to the Mauritius; but I doubt if our trade relations with other parts of the Empire would be materially advanced in their favour by any far reaching change of policy.

In my opinion it might be difficult to show that a preferential trade would prove directly prejudicial to Indian interests but should we be urged to join in a general preferential arrangement, I think that it would be our duty to point out strongly that, if our export trade with foreign countries were in any way seriously prejudiced, we should run a very great risk of disturbing the balance of trade, now strongly in our favour, and we might find ourselves once more plunged into the deep sea of trouble arising from a depreciating currency-depreciation of Exchange value of our rupee currency."

Speaking on a motion for the abolition of the countervailing Excise duty on Indian cotton in the Imperial Legislative Council on the 9th of March 1911, the late Mr. G. K. Gokhale expressed himself on the general question of Imperial Preference in India as follows:—

But, Sir, situated as India is, I fear there is no likelihood of that kind of protection being available to us, and **It is my deliberate conviction that in our present circumstances a policy of free trade reasonably applied is after all the safest policy for us**......Until at any rate we grow so in our influence and our "position in this council that the Government will think it necessary to accept and act on our views, I really think that **on the whole a policy of free trade reasonably applied is the safest policy for this country**; otherwise influential interests, influential combinations, influential parties in England, who can have a ready access to the Secretary of State...will not fail to take the fullest advantage of the situation; and this huge engine of protection which a vast power can employ not in the interests of the people of India but in the interest of those parties." The present Indian nonofficial attitude on the question of Imperial Preference reflects from bitter experience, the same distrust of English selfishness "*Sixty Years of Indian* Finance" pp. 275,277 and 265.

unfortunate. Sir Ibrahim Rahimtulla's amendment to raise the duties from 3½ to 6% was defeated.

But the next year, owing to the necessity of finding some money to make up for the war contribution of £ 100 million, which it was resolved to make to the Imperial Treasury, the Government of India was able to obtain the Home Government's sanction to raise the cotton duties to 7½% and so to assimilate them to the General Tariff rate. From a subordinate position, which the customs revenue was deliberately assigned in previous years, it was suddenly given a lift during the war period. And in recent years customs revenue has come to be the chief source of the Indian revenues, and the first source available for additional revenues required.

Further changes followed in 1921 and 1922 owing to the heavy deficits that had to be met. The general import duty was raised successively to 11% and 15% *ad valorem*; but that on cotton piece-goods though increased to 11% in 1921 was left untouched the next year. On the other hand a duty of 5% was placed in 1922 on yarn which hitherto had been exempted. Sugar was taxed at 15% and then at 25%; and articles of "luxury" at 20% and 30% respectively in 1921 and 1922; while duties on special articles were much increased. The customs revenue in 1922 amounted to over 32 crores of rupees. There was naturally a great agitation in England owing to the increase in cotton duties in 1921 without any increase in the countervailing excise duty; but since the Reforms of 1919 and the recommendations of the Joint Select Committee, which considered the Government of India Bill, a change had been brought about in policy, and a Fiscal autonomy, of a sort, had been conceded to India. Mr. Montagu accordingly replied to the Lancashire deputation that he was determined—the first time in history—to maintain the right of the Government of India to consider the interests of India first in shaping the fiscal policy. *

LXXXIV. EXPORT DUTIES.

There is not much to be said about the history of export duties in India, and the little that may be written is uninteresting.

In 1860 Mr. Wilson, then in search for fresh sources of revenue, imposed a duty of Rs. 2/- per maund on saltpetre; but that duty, proving injurious, was reduced and finally abolished in 1868. Indigo too suffered considerably from the export duty of Rs. 3 per maund. In 1873 the duty on wheat, and the next year that on lac dye, were removed. The year 1874 saw considerable changes in as much as in that year export duties on most articles were removed, leaving those on three articles only, viz., indigo, rice and lac. However, the duty on indigo was abolished in 1881; and so also was that on lac. Rice was, therefore, before 1916 the only important article on which export duty was levied, because India had a virtual monopoly in it. In 1916, owing to the pressure of war, duties were also imposed on tea and jute; which were doubled the next year. In 1919 a tax of 15% was imposed on the export of raw hides and skins; but, with a view to maintain a key industry within the Empire, and to show that India was not quite inimical to the idea of Imperial Preference, a two-thirds rebate was given in the case of exports to any part of the Empire. *

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* The existing Import Duties are given in Chapter XV Q. V.

*** Existing Export Duties.**

No.	Names of Articles.	Per.	Tariff Valuation.	Rate of duty.
	Jute other than Bimlipatam Jute.		Rs. a. p.	Rs. a. p.
1	RAW JUTE—	Bale of 400 lbs.		
	(1) Cuttings		......	1 4 0
	(2) All other descriptions		......	4 8 0
2	JUTE MANUFACTURES when not in actual use as coverings, receptacles or bindings for other goods			
	(1) Sacking (cloth, bags, twist, yarn, rope and twine)	Ton of 2,240 lbs.	......	20 0 0
	(2) Hessians and all other descriptions of jute manufactures not otherwise specified....	"	......	32 0 0
	RICE.			
3	RICE, husked or unhusked, including rice flour, but excluding rice bran and rice dust, which are free.	Indian maund of 82 lbs avoirdupois weight.	......	0 3 0
	TEA.			
4	TEA	100 lbs.	......	1 8 0
5	RAW HIDES AND SKINS IF EXPORTED FROM BURMA—			
	(1) Arsenicated and air dried hides—			
	(a) Cows (including calf skins)	lb.	0 5 0	15 per cent.
	(b) Buffaloes (Do. do.)	"	0 2 0	"
	(2) Drysalted hides—			
	(a) Cows (including calf skins)	"	0 2 0	"
	(b) Buffaloes (Do. do.)	"	0 1 0	"
	(3) Wet salted hides—			
	(a) Cows (including calf skins)	"	0 2 6	"
	(b) Buffaloes (Do. do.)	"	0 1 0	"
	(4) Goat and Kid Skins	Piece.	1 0 0	"
	(5) Sheepskins	"	0 8 0	"
6	RAW HIDES AND SKINS IF EXPORTED FROM ANY PLACE IN BRITISH INDIA OTHER THAN BURMA:—			
	(1) Arsenicated and air dried hides			
	(a) Cows (including calf skins)			
	Framed	lb.	0 6 0	15 per cent.
	Unframed	"	0 2 6	"
	(b) Buffaloes (including calf skins)			
	Framed	"	0 2 6	"
	Unframed	"	0 1 6	"
	(2) Dry salted hides—			
	(a) Cows (including calf skins)	"	0 2 0	"
	(b) Buffaloes (Do. do.)	"	0 1 0	"
	(3) Wet salted hides—			
	(a) Cows (including calf skins)	"	0 2 0	"
	(b) Buffaloes (Do. do.)	"	0 1 0	"
	(4) Goat and Kid Skins	Piece.	1 0 0	"
	(5) Sheep Skins	"	0 8 0	"

LXXXV. COUNTER-VAILING EXCISE DUTIES.

The history of these duties is closely connected with that of the cotton duties controversy, which we have already traced. Rejected by the Tariff Committee of 1874, the excise duty of 3½ % on yarns of 24 s. and over was proposed by Mr. Westland in 1894 in order to appease the wrath of Manchester at the proposed reimposition of the cotton-duties. But owing to pressure from Home the duty, as finally imposed, was at 5 % on all cotton yarns of 20 s. and over manufactured in Indian mills. Two years later (in 1896), a uniform duty of 3½ % was levied, directly upon woven goods (as the import duty was), and the discriminating line of division at 20 s. was given up. Thus the counter-vailing excise duties were assimilated to the cotton import duties; and remained so until the latter were raised in 1917. The association served, owing to the grant of fiscal autonomy noted above, the efforts of the vested interests of Lancashire to force up the excise rate which had proved unavailing, and the Government proposal to raise it to 7½ % in 1922 was thrown out by the Legislative Assembly.

The only remaining item of interest in the tariff history of India is the counter-vailing duty on bounty-fed sugar. In order to check imports of sugar from countries which were giving artificial stimulus in the shape of bounties, and so to prevent the Indian industry from being completely strangled, the Government in 1899 imposed additional duties on sugar imported from such countries equal to the bounty or grant given by them. These were raised in 1902; but were reduced the next year having regard to the Brussels (Sugar) Convention of March of that year. The duties were finally abolished in 1912. They were never meant to be protective in their operation; they were only intended to remove the unfair advantage which the manufacturers of other countries had over the Indian on account of the bounty system and so to fulfill the conditions of fair competition and free trade. The increase in the import duty on sugar since 1916 has already been noted before.

Chapter XII.

REVIEW OF THE INDIAN FISCAL COMMISSION REPORT.

LXXXVI. THE FUNDAMENTALS OF THE REPORT.

The Indian Fiscal Commisson was appointed to:—

> "examine with reference *to all the interests concerned* the Tariff policy of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference, and to make recommendations."

This reference is obviously open to serious misconception. On the one hand it definitely prevents the Commission from considering anything but the tariff policy of the Government of India; so that it is debarred from considering and suggesting those other expedients for the rapid industrialisation of the country, which, though not covered by the term "tariff policy," are nevertheless, dependent upon the Government of the country for their efficacious employment and fructification. If the *raison d'etre* of the Commission of inquiry, (which is estimated to cost five lakhs of rupees out of the public funds), was to obtain concrete, definite suggestions for the energetic industrialisation of a country, then the exclusion from their terms of reference of such other measures as may be equally important in achieving the object aimed at is as mischievous as it is indefensible. The Government of India have indeed, a colourable pretext in such an exclusion, in that a previous Commission, the Indian Industrial Commission of 1916-18, is alleged to have inquired into the other methods of industrial development. But the pretext ought not to blind the most fanatic defender of the methods of Indian Government to their having crippled such important commissions by a deliberately restricted reference, and then attempting to wriggle out of any inconvenient recommendation by twisting the meanings, or discovering discrepancies or differences, in the findings of several commissions reporting on the same main problem. As the Fiscal Commission has been debarred from inquiring into other means of industrialisation, the Industrial Commission was debarred, in its turn, from considering the tariff issue, on the excuse that the Government did not desire to raise such a controversial question during the war. The result is that the total outcome of a double inquiry still leaves the problem unsolved in that whole-hearted, comprehensive manner, which alone could really enable this country to achieve its industrial goal, however modest a goal may be conceived. It is a pity the Commissioners have not quite realised the mischief of this initial handicap, and have permitted themselves to be jockeyed into considering a reference which must necessarily leave their task half-done at best. It is true, the Report does in places interpret the reference rather liberally, and considers such issues as the effect of the Railway rates on the future of national industrialisation.[*] But wherever they do so they seem to be ultra-conscious of their aberration, and so tackle the issue almost apologetically, and as a side-issue only.

But if the terms of reference are reprehensibly restricted in one sense, they have been unduly complicated in another, by the inclusion of the phrase; "*with reference to all the interests concerned.*" The Commissioners of the Majority have certainly interpreted this phrase to mean as if it prevented them from ignoring the revenue interests of the Government, even if a consideration of those interests conflicted with the main problem they were set to solve. That probably explains their central observation :—

"The tariff as we envisage it will be a combination of revenue and protective duties" (Para 94).

The only intention with which the Commission was appointed was to devise measures for the fiscal protection of the nascent Indian industries. They had no immediate occasion to consider other factors. True the financial aspect of the changes they propose could not very well be overlooked; but that aspect need not at all be suffered to dictate in shaping the scheme of fiscal protection. Where the industrial requirements conflict with the narrower financial needs the Commission would have but done its duty in ignoring the latter altogether. For, once they admit the legitimacy of financial considerations to intrude upon their suggestions, the investigation would be hopelessly entangled. But the Majority, have admitted and emphasised the force of financial considerations, with the result that they are constrained to oraculate against further increase in direct taxation.[†]

But their view is erroneous in principle and inadmissible in practice. It is a glaring contradiction of this attitude with the meticulous solicitude the Majority have displayed towards what they fancy to be the interests of the consumers in commending a limited, or "*discriminating*" protection.[‡] What they would not do for the wider and more permanent interests of the

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[*] "We have no hesitation in holding that such a development would be very much to the advantage of the country as a whole, creating new sources of wealth, encouraging the accumulation of capital, enlarging the public revenues, providing more profitable employment for labour, reducing the excessive dependence of the country on the unstable profits of agriculture and finally stimulating the national life and developing the national character." *Indian Fiscal Commission, (Majority) Report*, para 54.

[†] "High taxes on income are undoubtedly a handicap to industrial development, and there are many who hold that the rates ruling at the present moment are distinctly too high for the interests of industries and the general prosperity of the country. The witnesses whom we examined on this point were almost unanimous in the opinion that direct taxation has reached its limit under present conditions, and in view of the general feeling in the country we do not think that any material increase in this form of taxation is feasible." *Indian Fiscal Commission Majority Report*, para 76.

[‡] "We recommend in the best interests of India the adoption of a policy of protection to be applied with discrimination along the lines indicated in this report." *Indian Fiscal Commission Majority Report*, para 55.

Indian industry in general, they are prepared to do for the narrower and more immediate, temporary needs of the Finance Department. They would sacrifice the entire case for the poorer classes for revenue reasons, and incidentally achieve a travesty of distributive justice. For the taxation of income is a taxation on the most approved lines of distributive justice, in as much as it approximates to the ideal of apportioning public burdens according to ability, with a concrete objective test of that ability. Taxation on articles of consumption is objectionable, not only because the consumer is relatively very much less able to bear the burden than the classes liable to the Income Tax; but also because it substitutes for a definite objective standard of ability, a vague, imperceptible, and purely subjective measure of faculty. The protective customs duties are, indeed, duties on consumption. But their object being not the introduction of revenue but grant of protection, they would in reality not be burdensome, because in proportion as they succeed in achieving their object of shutting out the foreign product they would promote the local industry, increase employment and obviate any burden at all. Everywhere the modern democracy has distrusted consumption taxes, and yet welcomed protective Customs duties. The explanation of the apparent paradox is that the truly protective Customs duties, by adding to the variety as well as the volume of employment within the protected country, have actually helped to obliterate the burden of such duties by adding to the purchasing power of the proletariat. Here it would suffice to observe that the draftsman of the terms of reference has succeeded so well, that the Majority of the Commission, at least, have been led into betraying the trust imposed upon them, by a successful sidetracking manœuvre arising out of the ambiguity of the reference. The position is the more surprising, because the recommendation in question evinces a distinct bias in favour of the propertied classes, which we should not have expected from a body so anxious to be the champion of the interests of the poorer classes.

In framing, then, practical recommendations for a protective tariff, revenue considerations should be, if not ignored absolutely, considered to be of only second-rate importance. It does not follow that by ignoring the revenue consideration in a protective tariff, we would be utterly ignoring the whole aspect of the financial needs of the country. A national Customs Tariff, even when framed on protective principles, might still leave room for duties on certain articles which are purely revenue duties. Para 120 * of the Report lays down considerations for levying such duties, which may be

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* "When protectionist considerations do not arise, we see no reason why the Government should not impose revenue taxes in accordance with the recognised principles which govern such taxation. When a large revenue is required it is generally found that taxation has to be imposed on articles of almost universal consumption, which may be classed as necessaries, but in general the necessaries of life should be taxed as lightly as possible. High duties may reasonably be levied on luxuries, provided care is taken that the duties are not pitched so high as to pass the point of maximum productivity." *Indian Fiscal Commission (Majority) Report*, para 120.

generally accepted, though exception may and will be taken to the cases mentioned in para 119.[*] Where the majority have offended is in para 94, which combines revenue and protective considerations,—not by including in the general tariff of the country some articles, which are taxed exclusively for revenue, and other articles which are taxed as exclusively for protection,—but combining *on one and the same set* of articles *both* revenue and protective duties at the same time.[†] The instance of sugar they have given leaves no possibility for doubting their intentions:[‡] Had they not given their own authentic interpretation, I should have hesitated before believing the Majority of the Commission, which included a well known Professor of Economics, to be capable of such a glaring offence against the most elementary canons of public economy. The burden of protection, with which they are all through their report so heavily obsessed, and which, accordingly, they decide to reduce to its minimum, would, by such expedients as those mentioned in para 94, be very considerably and quite unjustifiably multiplied. The existence of a few purely revenue duties may not, it is conceivable, meet the revenue needs of the present Indian Government. But the answer in that case is the one already offered by the Government themselves,—an admitted possibility for retrenchment in public expenditure. So long as the Govenrment has not convinced the people that all possible avenues of retrenchment in the most extravagant public departments of the Government have not been fully explored, and adequately given effect to, it is unnecessary for such a body as the Fiscal Commission to anticipate the difficulties of an unrepentant and spendthrift Government; and be so far officious as to provide them with additional revenues by sacrificing or compromising the prime consideration of their own appointment. Besides, even in the case, of purely protective duties, however high they might be put up, *some* trade would in all probability be still carried on; and, therefore, some revenue would still accrue from that source also. The financial history of the United States, Japan and Germany-three of the most thoroughgoing protectionists of the world,—tells us that under the most rigorous protective regime the receipts from the Customs department will not be entirely wiped out. So, there was no need for the Commission to have given such a prominence to revenue considerations in framing their proposals, no justification on that score for restricting the degree and duration of the protection they have actually recommended.

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[*] "Any taxation imposed on such articles reacts on the industries or will necessitate the imposition of some Compensatory duty."

[†] "There is at present a revenue duty of 25 per cent. on refined sugar. The sugar manufacturers have asked for a protective duty of 33 1/3 per cent. We express no opinion ourselves on the merits of the case, but merely take it for purposes of illustration. It might be found that no protection was required. The duty would then be regulated simply in accordance with the revenue necessities of the Government. Or it might be found that protection of 33⅓ per cent. was necessary. In that case the duty would be raised to that level and would not be lowered until it was decided that a lower rate of protection would suffice. Or it might be found that the industry required protection at the rate of 15 per cent. only. **In that case 15 per cent. would be fixed as the protective rate, and if the Government were forced to raise additional revenue from refined sugar this would take the form of an excise duty, plus an additional import duty, both being determined solely by the revenue necessities of the Government.**." Para 95.

[‡] "The tariff, as we envisage it, will be a combination of revenue and protective duties. The existing tariff will form the basis of the revenue duties and will become progressively modified as the duties on particular commodities are successively determined on protectionist principles." Para 94—*Indian Fiscal Commission* (*Majority*) *Report.*

Para 97 * of the Report lays down the principles according to which the Commission considers protection should be given to Indian industries. Its one limiting condition is that Protection should be a discriminating one, and along the lines suggested by the Commission. As the words stand, perhaps there could not be much of a criticism. But the peculiar interpretation, they have placed upon this phrase—"Discriminating Protection,"—suggests the most obvious comment of the authors of the recommendation having completely disregarded the interests of the country. They would use discrimination in the *degree and measure* of protection, with a view to minimise its hardship to the consumer, instead of a discrimination in the *choice* of industries to be selected for protection. "**India by the extent and favourable conditions of its territory, is capable of producing almost every article required for the use of man**" said Sir John Strachey on a memorable occasion. But to that bigoted, inveterate free-trader this fact was an argument not for the industrial development of the country as rapidly as possible, by every means at the disposal of the State in India, but an argument for the institution of the most unbounded freedom of trade and exploitation to the foreigner in this country. Supposing, for the sake of argument, that some *discrimination* must be used for selecting industries which hold out the greatest promise of immediate response and result if suitably protected, the discrimination would then apply to selection of industries, not to the amount of protection to be granted to them. This latter is determined by quite other considerations. The industries once selected for protection should be granted the fullest, firmest, fittest protection without a gesture of hesitation, without a murmur of doubt or dissent. The alleged hardships of such a course, even should they actually materialise, must be considered as the unavoidable price for achieving our national development in the quickest possible time. We must pay it as cheerfully as we expect its result confidently.

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* "(1) The industry must be one possessing natural advantages, such as an abundant supply of raw material, cheap power, a sufficient supply of labour, or a large home market. Such advantages will be of different relative importance in different industries, but they should all be weighed and their relative importance assessed. The successful industries of the world possess certain comparative advantages to which they owe their success. No industry which does not possess some comparative advantages will be able to compete with them on equal terms, and therefore the natural advantages possessed by an Indian industry should be analysed carefully, in order to ensure as far as possible that no industry is protected which will become a permanent burden on the community.

(2) The industry must be one which without the help of protection either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interests of the country. This is an obvious corollary from the principles which have led us to recommend protection. The main object of protection is either to develop industries which otherwise would not be developed or to develop them with greater rapidity.

(3) The industry must be one which will eventually be able to face world competition without protection. In forming an estimate of the probabilities of this condition being fulfilled the natural advantages referred to in condition (1) will of course be considered carefully. The importance of this condition is obvious. The protection we contemplate is a temporary protection to be given to industries which will eventually be able to stand alone."

LXXXVII. SOME SPECIFIC MEASURES OF PROTECTION.

The guiding principle of the protective policy recommended by the Fiscal Commission is contained in para: 97 of the Report. To carry out the scheme as they envisage it, some new institution, like the Tariff Board proposed by them, may be conceded to be indispensable, though opinion must differ seriously as to the constitution and functions of that Board. Even while subscribing to the general spirit of para 97, exception must be taken to the concluding sentence in clause (1) of that section:—

> "No industry," they observe, "which does not possess some comparative advantages, will be able to compete with them on equal terms, and therefore, the natural advantages possessed by an Indian Industry should be analysed carefully in order to ensure as far as possible that no industry is protected which will become a permanent burden on the Community."

This is just the reverse of what one would normally expect the Tariff Board to do. The function of the Tarriff Board cannot be to discover if any undeserving industry is protected, for the simple reason that hitherto no protection has been intended to be afforded at all. This negative enunciation of the prime function of the Tariff Board might prove serviceable at a remote future date, when the country could be judged to have had its fill of protective measures, and was accordingly desirous of retracing its steps. It might meet the requirements of para 117 of the report, wherein the Commission consider the precautions for reducing or withdrawing Protection when circumstances justify such a course. * But at the very outset of our endeavours for establishing Protection, such a negative enunciation of the basic principle on which the Tariff Board is to function is bound to be fraught with the gravest mischief. The clear duty of the Tariff Board should be to inquire what industries, being suitable, need protection; how much that protection should be; what form it should best be given in. It should have and must have nothing to do with saying what industries should *not* have protection. The same reasoning must find exception to para 102 of the Report.

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* "It is not possible for legislators to foresee the future conditions of an industry. If, for instance, a time limit of 15 years were placed the protection given to a particular industry, it might happen that within the period of 15 years new conditions arising might make the protection of the industry as essential at the end of the period as at the beginning. Protection in such a case would invariably be extended. But a time limit which was not always observed would soon lose all its effectiveness." *Indian Fiscal Commission* (majority) Report para 117.

> **"Not only in our view are there strong objections as a rule to granting tariff protection to *new industries*, but the grant of such protection is really unnecessary."**

This gainsays the fundamental principle of para 97. An industry may be admittedly suitable, and yet be incapable of establishment owing to foreign competition. Its prospects may not be a matter merely of the promoter's imagination, but be capable of conclusive demonstration by the cold logic of accepted facts, and undoctored statistics. Its establishment within the country may even be a matter of national importance. Shipbuilding of the modern type is an instance in point; or the manufacture of modern machinery. It is impossible to accept the Commission's suggestion that an industry of such promise and possibilities should not receive any attention in the redrafted fiscal policy of the country. There may, indeed, be other equally effective means of aiding substantially such an industry; and we would not object to their employment. But we hold that the summary categoric exclusion of such industries from fiscal or tariff protection is indefensible and injurious. The Tariff Board must be free to recommend such form and measure of protection to any industry that its investigation induces it to consider suitable for such assistance.

LXXXVIII. BOUNTIES.

The Commission's appreciation of Bounties as a form of Protection may be welcomed whole-heartedly, being often more effective than import duties in affording real protection. They opine:—

> "If, however, any further state assistance appears to be required in the initial stages, we think that it should as a rule take the form of *bounties*, or such other forms of assistance as are recommended by the Indian Industrial Commission." *

But against the general use of bounties, the caveat must be entered that they are a form of direct State expenditure, which, however useful the object for which they are granted may be, must necessarily be restricted by the available resources of the Government. The present financial position of the Indian Government affords no hope that, if depended upon, this form of Protection could really, effectively, extensively assist the rapid industrialisation of India. The epigrammatic terseness of Lala Harkishenlal's view that, "we should nurse the baby, protect the child, and free the adult," has so fully fascinated the Commission, that they seem to have utterly ignored the case of the embryo. For all they could say to the contrary, there might be infinite possibilities resulting from a proper attention to the embryo. We cannot concur with the suicidal suggestion of stifling the embryo, or even inducing an abortion, merely because of the possible pangs of birth. The bounties, moreover, must necessarily be in driblets, always dependent upon the financial exigencies of the State. No sound financier of industry could consent to build upon such a precarious assistance. And even when otherwise unobjectionable, bounties would more suitably be afforded to specific individual establishments in a given industry, rather than to the entire industry by one uniform measure—without possibility of discrimination. If we would not occasion further complaints against the common practice of unfair discrimination by the Government of India as between the Indian and the extra-Indian claimants for its assistance, we should not exaggerate the importance of this form of protection which is productive of good results only under very considerable limitations.

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* **Para 102 Ibid.**

LXXXIX. OTHER CONDITIONS.

Clause (3) in para 97 is the result of a misconception :—

> " The industry must be one which would eventually be able to face world competition without protection."

Admitting it as an ideal, we must yet point out that the most practical demand for Protection in this country is the out-come of a legitimate desire to obtain command of our own vast local market for our own industries, if necessary, by means of Protection in tariff adjustments to the local industries; and also to be able to utilise our own raw material so as to avoid the tribute we now have to pay to the foreign manufacturer of our raw material, to his banker and broker and shipper and insurer and a host of other middle men, too many to be enumerated and identified. It is a most serious tax upon our people, which is none the less objectionable because it is so indirect and imperceptible. With such a view, it is not so important that the industry accorded a measure of protection should be able to withstand world competition in foreign markets unaided. Initially at least, we have no ambitions for conquering foreign markets, because we would guard against the possibility of retaliation. Our programme of protection may accordingly well be moderated in proportion. There can be no objection to the hope of our industries facing competition in our local market eventually unaided.

The additional conditions strengthening the case for protection as outlined in para 96 of the Report may pass muster, but not so para 99 relating to the treatment of conflicting interests in industries :—

> " When the Tariff Board is in possession of all the facts, we can only suggest as a principle for its guidance that an industry should receive protection, even if it adversely affects the development of other industries, provided this results in a net economic advantage to the country."

The Tariff Board could not be expected to decide whether or not the course it suggests is likely to result in a net economic advantage to the country. That we think should be the function of the sovereign Legislature, which it should neither abdicate nor delegate. It may, for instance, be thought advisable, in the interest of providing additional employment in India, to treat differentially the spare parts of motor cars, and the cars imported ready for the market, in the schedule of Import Duties. Such objectives are justly regarded to be outside the competence of the Tariff Board, and we should not needlessly complicate procedure and obscure responsibilities, which might as well be simpler and clearer.

Paras 102–108 may be accepted subject to the following reservations:-

(a) The belief that the existence of a few *ad hoc* revenue duties in the tariff schedule will give a new industry as much protection as it should need is indefensible.[*] Revenue duties can have no possible connection with the nature, extent and duration of the protection an industry may need; and it is the negation of economic statesmanship to depend upon the haphazard protection that might be conceivably, though not intentionally, afforded to a stray industry by the mere magnitude of a revenue duty.

(b) There must be no quibbling about the rate of the Protective duty **It must be at least equal to the full difference in the competitive cost of production to a representative establishment in the industry in question in** this country and in its foreign competitors. This principle must be taken an an axiom by the Tariff Board, who should have no discretion to meddle with it.[†] The fallacy of per centage in *ad valorem* duties should not be suffered to obscure this basic principle; but it may be camouflaged by combination with specific duties. The Tariff Board's task would be to investigate into and determine the relative difference in the cost of production at home and abroad.

(c) For the "Basic Industries" the system of bounties which the Commission have recommended will not suffice. The principle that:

> "the decision whether protection should be given to "Basic Industries" should rest rather on the consideration of national economics than on the economics of the particular industry".[‡]

is perfectly sound. But the Commission have utterly disregarded their own principle in suggesting in the same paragraph:

> "From one point of view the protection of such (i. e. basic) industries may be regarded as undesirable, seeing that the effect of protection would be to raise the cost of the raw materials of a number of Indian industries.

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[*] We anticipate that the financial necessities of the Government will ensure the retention of a general level of revenue duties which will give a new industry as much Tariff assistance as it would require at the start. After the industry has developed to some extent and shown its possibilities, it might then approach the Tariff Board," Para 102.

[†] "In exceptional cases a higher rate of protection, though imposing a greater burden on the consumer, may attain its object in a shorter time, and may therefore, prove to be of smaller total burden than a low rate continued over a long period. x x x x The relative cost of production will also be some guide to the Board as to whether an industry fulfils the primary conditions laid down for protection. If the difference in cost of production in India and other countries is large, there is a *prima facie* presumption that India does not possess the necessary natural advantage for the industry." Paras 103 and 104 Ibid.

[‡] Para 108 Ibid.

For this reason it may often be found that the best way of assisting a basic industry is by bounty, rather than by a protective duty."

Basic industries must be developed at any cost, for the simple reason that in their absence the entire industry of the country may be stultified. Admitting that a protective duty would add to the cost of production in some other industries, that increase in cost would be small in proportion to the total cost of production of the particular commodity the affected industry is producing. The increase may be covered by the protection afforded to the affected industry also. And, if not, the increase may well be borne in the general interests of the country's industries. We have shown elsewhere why bounties could not be depended upon for the proper, efficient development of any new industry. *A fortiori* they must be rejected as the sole means of developing industries of such transcendental importance.

(d) **The best way to develop industries of military importance is to conduct them under direct government agency.** It will combine all the advantages of large scale production, with none of its defects arising out of combination and increase in price. The Government of India would in that case be called upon, not only to abandon their present industrial policy of *laissez faire in toto* by a very considerable extension of direct State enterprise, but would be compelled to afford the most unmistakeable test of their confidence in the Indian people.

(e) In regard to machinery the Commission lay down:—

> " There are obvious advantages for the encouragement of the manufacture of machinery in India. But this encouragement should not as a rule be given by import duties. This must tend to injure the general industries of the country by raising the cost of one of the constituents of production." *

This reasoning has already been in part exposed above. **The Commission seem to have misapprehended the elements of industrial economy and financing.** They seem to have overlooked the fundamental difference between a tax on raw material,—like cotton, or wool, or pig iron,—and a tax on machinery, viz., that while the former would be a tax on an item of recurring expenses of production, the latter would be a tax on one of the capital items that need not be incurred except perhaps once in twenty years. A tax on imported machinery, imposed with a view to promote the production of such machinery in India after reasonable proof of its possibility has been afforded, would only operate so as to increase slightly the capital required for the new industry. If twenty-five per cent. of the capital required for an industry is to be invested in the machinery for that industry, and if the duty on imported machinery competing with a like home product is twenty-five per cent. it would mean that the total proportion of the capital devoted to machinery would be 31¼ per cent. in stead of twenty-five per cent. This would mean no difference in practice to the success of the industry as measured by its dividends, because the promoters would quite easily be able to economise in capital in other directions, say in the building, or the stocks they hold on hand. The cost of production of the commodity need not at all be affected adversely. For the worst assumption would only mean that if the return to capital in such an industry had originally been calculated at 10 per cent., the dividend of the share-holders would be a little smaller because they are supposed to be unable to economise in capital outlay, and have to pay a dividend out of the same profits on a capital larger by 6 1/4 per cent. i. e., ten units of profit will have to be divided between 106 1/4 instead of between 100. This assumes that the capital element not only does not admit of any economy, but also that it does not succeed in its struggle against the consumer, and cannot raise the price to make up the same dividend. To make up the same dividend,—ten per cent.,—the increase in price of the commodity would be negligible, if we assume that the capital is turned over at least once in the course of the year. Hence there is no need to condemn protective duties on machinery, provided, of course, the Tariff Board satisfies the Legislature that there is a reasonable possibility for such an industry in this country. This ,of course, does not go against the objection rightly urged by the Commission against the present revenue duty on machinery, which must be unhesitatingly, and unequivocally condemned.

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* Para 109 Ibid.

The Commission have done well to point out that there must be a greater industrial bias in primary education, greater attention to the training of apprentices.* They might have added that the Government of this country have hitherto lamentably and culpably failed to utilise the influence of their large purchases of stores for the proper training of Indian apprentices in the foreign establishments they patronise. The recommendations in paras 126–130 touching the manipulation of Railway rates as an aid to industrial development leaves very little to be desired. But the Commission have ignored the allied question of shipping freights, possibly because they sensed that the Government of India are at their old game of splitting up issues unnecessarily, and have referred this question to another Committee. The Commission, however, might quite pertinently have discussed the bearing of shipping of freight on foreign trade, and, therefore, on our local industries; but perhaps they could not fully appreciate the significance of recent economic history, as illustrated, for instance, by the latest Tariff Bill before the U. S. A. Legislature.

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* "The quality of Indian labour can only be raised by an improvement in the education of the labourer, which will lead to a higher standard of intelligence and a higher standard of living. We feel that the type of primary education at present given in India is not always suitable to the development of a more efficient industrial population. We would suggest that the ordinary school curriculum should include some form of manual training, and that the educational system should be devoted far more than at present in the awakening of an interest in mechanical pursuits. x x x x x x It has been suggested to us that in order to expedite the process the Government should make it obligatory on all industrial concerns in India to give facilities for technical training to Indian apprentices. We fear, however, that the training given under such a system of compulsion would be of little value, and we believe that economic forces by themselves are rapidly producing the results which some would endeavour to secure by legislation." Paras 122-123.

XC. SOME HARMFUL PROPOSALS.

The prolonged delay in the publication of the Report of the Indian Fiscal Commission, was freely reported, to have been due to the minute of dissent of the Indian members not having been communicated to the Government for a long time. The delay, however, would have been more than justified if the dissent had boldly laid down incontrovertible principles of a statesmanlike nature for the future guidance of the Indian fiscal policy. But that part is hopelessly disappointing. The Majority Report lays down:—

> "We recommend in the best interests of India the adoption of a policy of *protection to be applied with discrimination along the lines indicated in this report.*" *

But the Protection they have recommended, and the discrimination they have indicated, apart from implying a certain restriction attempted upon the free discretion of the Legislature in finally determining the fiscal policy of the country, will scarcely inaugurate an era of boundless prosperity for the Indian industries, restoring this country to that place in the roll of the industrial nations of the world, that is her due, as much because of the immense natural resources she possesses, as of her vast labour power. The Majority Report displays an almost old maidish nervousness about the dangers of the Protection it has recommended. Accordingly, its main recommendation seems like a forced ungracious concession, the result of an obvious compromise between the doctrinaire free trader, and the nervously apprehensive protectionist, ashamed of his demands even while he is making them, lest he be accused of selfishness. What little merit this forced concession may have had is lost altogether by the conditions and stipulations which the Majority have chosen to hedge it round with. The real spirit of their report is breathed in para 93, which says:

> "Our conclusions, therefore, are that in the interests of the consumers generally, and particularly of the masses of the people, in the interests of agriculture, in the interests of steady progress and for the maintenance of a favourable balance of trade, the policy of Protection which we recommend should be applied with discrimination, so as to make the inevitable burden on the community as light as it is consistent with the due development of industries, and to avoid abrupt disruption of industrial and commercial conditions."

Every one of these reasons involves a fallacy. In face of an all but unanimous verdict of the country in favour of a Protectionist policy, as gathered from the evidence laid before the Commission, it would have been impossible for that body to recommend anything but Protection in general. But lest the Indian industries should develop too fast, lest the commercial dominance of this country by Britain should in any way be endangered, the Commissioners of the Majority seem to have taken care to emasculate entirely their central recommendations by emphasising conditions and requirements which are entirely irrelevant to their reference. They assume a conflict of interest, without examining properly the premises on which the assumption is grounded. They presuppose a burden to the community, without allowing anything for the increased prosperity and enhanced purchasing power resulting all round from the full development of all possible industries in this country. They haggle and hesitate on the measure and extent of the Protection to be granted, without having the courage of definitely prescribing their own standard of such assistance, if not protection, to the nascent industries of India. In the succeeding pages an attempt will be made to examine their recommendations more fully under each of the main heads of the Report. But even in this place a note of warning needs to be uttered against the grave consequences of emphasising the supposed conflict of interests between the producing and consuming classes, between the agricultural and industrial classes, which is a misreading of the entire economic history of the world in the last hundred years. It is difficult to understand how the eminent men, who composed the majority of the Commission, should have lent themselves to approve a camouflage that was invented and is maintained for the obvious needs of economy in the government of one country by another of imperialistic tendencies, but which can have no possible counterpart in the realities of life in a country like this. With an average income per head of less than fifty rupees per annum, how can we possibly assume the existence of any considerable idle class of consumers only? Every consumer is a potential if not an actual producer. His interests, therefore, in the long run, cannot be essentially different from those of the producer. They who hold these interests to be fundamentally divergent expose themselves to the inevitable suspicion of having their own axe to grind in keeping up this camouflage of British Imperialism. And as every industry ultimately depends upon agriculture or extraction from the bowels of the mother earth, it is still more absurd to urge the danger of a conflict between the agriculturist and the industrialist. But even granting the whole assumption, for the sake of argument, the retort might well be made that the guardianship of Indian interests, whether conflicting or harmonious, may most fitly be left to the popular spokesman in the assemblies of the nation. This is not merely a reply. It implies a challenge.

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* Para 56.

XCI. THE FISCAL SYSTEM AND THE CURRENCY SYSTEM.

There is, however, one argument in the remarks just quoted which must not be allowed to pass unnoticed even in this cursory survey of the recommendations. The Majority would circumscribe the policy of protection in order to maintain our present currency system, which they assume, depends for its proper functioning upon a prosperous export trade. The currency policy of India is fundamentally indefensible, and every consideration of national statesmanship, every demand of the commonest commercial honesty has long since required its radical revision. Had one not seen this specious argument solemnly urged in cold print, one would not have believed any body of experienced men of the world capable of seriously advancing as a reason for a particular policy of national development the need to maintain a system, which has cost us fifty crores in hard cash in a frenzy of financial intemperance by the amateur heads of the Finance department in India, and which even now, on the Commission's own assumption, needs a particular alignment of our industrial policy with a powerful brake upon the speed of its development,—all because this miserable chapter of unredeemed and unending blunders may be maintained. Can the force of futility go further? What is it, we ask, which has prompted this argument? The mention of the currency muddle would at best suggest an argument for the reform of that system, not a restriction of the degree of Protection that our industries demand.

XCII. REVENUE CONSIDERATIONS IN PROTECTIONISM.

The same want of perspicacity and logic is traceable in recommendations like that in para 94 which says,

> "The Tariff, as we envisage it, will be a combination of revenue and protective duties."

This is a fundamentally false principle and will, if given effect to, be proportionately mischievous in practice. Though the terms of reference required the Commission "to examine with reference to **all the interests** concerned the tariff policy of the Government of India;" and though we cannot overlook the financial considerations, especially in the present state of India, still the combination of revenue considerations in a Protectionist tariff is bound to defeat its own purpose. For, in proportion as it is intended to afford real protection to any given national industry against foreign products of a like nature by means of increasing import duties, the ideal in view would be the exclusion of the foreign product from competition in the domestic market. But if the foreign imports are altogether checked, the revenue must of necessity fall off, even though the rate may be very high, for the simple reason that there will be no goods imported, thanks to the prohibitive Protective duty, to pay the tax. In proportion as the ideal of Protection, therefore, succeeds, the ideal of revenue must fail. The tariff manipulator, however, who seeks from the increased duties to derive increased revenue, must either not care for Protection at all, or if Protection is granted, it must not be the primary condition in his mind. The demands of revenue would induce the Minister so to arrange the scale of duties, as, with the lowest rate, to get the greatest imports, and, therefrom, the greatest revenue. But the lowest rate consistent with the greatest imports will of necessity mean no Protection. The Majority have referred again and again to the existing scale of Indian duties as affording some Protection. If so, we can only say that the Protection was never intended by the authors of the present tariff of India, and not having been intended to be protective, the existing scale of customs duties fails to take into account the requirements of each industry. It is, therefore, burdensome without being Protective, and if the Commission did no more than stereotype, or even justify the present hap-hazard policy of the Government of India, the fundamental object of their appointment would have been sadly belied. The Majority have, of course, left themselves no alternative but this self-contradictory suggestion of a combination of protective with productive considerations in the customs policy of the Indian Government. For they have oraculated that:

> "High Taxes on income are undoubtedly a handicap to industrial development; and there are many who hold that the rates ruling at the present moment are distinctly too high for the interests of industry and the general prosperity of the country. The witnesses whom we examined on this point were almost unanimous in the opinion that direct taxation has reached its limit under the present conditions; and in view of the general feeling in the country, we do not think any material increase in this form of taxation is feasible. If, therefore, any further increase in taxation becomes necessary it will have to take the form of indirect taxation."[*]

The conclusion is, of course, inevitable, granted the premises. But are the premises sound? Will no one ask the authors of this paragraph, whether in the conclusion regarding the impracticability of any increase in direct taxation, i. e., the taxes which the rich alone have to pay, they are not, —I would be charitable and say, unconsciously,—guilty of selfishness in safeguarding the interests of the richer classes only? It comes with very bad grace, even if it were true, from the people who have been at such pains to limit industrial Protection in the interests of the consumers of India. It comes with very poor logic from men who have been specifically appointed to suggest means for the improvement of the fiscal policy with a view to industrialise this country. It is bad finance, in as much as it blocks the only really productive source of revenue, and thereby renders the unnatural combination of protective and productive considerations in tariff adjustment inevitable. It is bad economics, bad politics, bad ethics, to exempt the richer classes from taxation, precisely at a time when measures are suggested, which would, if realised, very probably add still further to their riches, and yet prevent the rapid and complete industrialisation of the country by a half-hearted, hesitating, ungracious tariff of revenues *cum* protection, which increases the cost to the consumer, (and incidentally the profit of the foreign manufacturer or importer), without substantially adding to the industrial enrichment of the whole country. It is to be hoped the Legislature will not be influenced by such obvious camouflage, and perpetrate a fiscal policy that will only result in hastening the universal class conflict between those who have and those who have not, which is yet happily unknown here.

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[*] **Chapter V, para 76.**

As already stated it is intended to examine the specific recommendations in detail later on in connection with such topics as the investment of foreign capital in this country and the grant of Imperial Preference, the constitution of the authority to frame and suggest the actual measure and the specific means of granting Protection to particular industries, as well as the general scheme of the whole system taken collectively. But in this general survey it is necessary to reiterate and emphasize the danger of allowing to pass without challenge the common claptrap of interested parties masquerading as high economic science, at whose altar the Indian Government has freely sacrificed the defenceless Indian interests in the past, and, if the danger is not duly attended to even now, there is no guarantee that they will not so sacrifice in the immediate future. The Commission was one from whom a great deal was expected. Its recommendations sadly belie these expectations. But it is not too late to take heed even now. For Commissions can but recommend; it is for the Legislature to realise their recommendations.* That these recommendations are not all that could be desired will only reflect upon the members of the Commission, and mean little or no danger to India as a whole, if the constitutional trustees of her interests are forewarned in time against deserting or betraying their solemn trust. For the policy they evolve in the next few months would mean the emancipation or the economic enslavement of India for a generation at least.

It has been pointed out in the previous sections that the excuse of the financial needs of the Government has been suffered to colour unduly the recommendations of the Fiscal Commission. There is, indeed, some reason why Government and their henchmen should be anxious about their revenue position. The continued deficit of the last three years shows no indication of abating in the next financial year as far as we can judge to-day. Any reduction, therefore, in their revenue must, accordingly, necessarily occasion anxiety to the financial authorities in the country. Besides, there are sources of revenue, and arrangements of financial administration, which, even apart from possible changes in the fiscal organisation of the country, are already causing grave anxiety on their own account. The Provincial Contributions, for example, are universally condemned in all the provinces, and, sooner or later, Government must face the possibility of a total collapse in this important source of their income. It means a reduction in round terms of about ten crores. The debt charge is growing every year, and the Railway profits are converted into a recurring, increasing, annual loss. Depression has affected not only trade, and through it the Customs Revenues, but also the income from the Direct Taxes. But the only remedy for these indisputable hardships is the strictest possible retrenchment in expenditure. The Army charges alone have increased over the 1913-14 standard by something like 40 crores, and we may reasonably expect that in this item alone there is room for all the economy that the falling revenues of the Indian Government render imperative. There is further the possibility of a more energetic policy of debt-funding and conversion, from which anything between 2 to 5 crores worth of annual economy might be quite reasonably expected. But this is a question, we recognise, outside the province of the Fiscal Commission, and we cannot blame them for not considering these items. What we may and must object to in their findings is the total disregard of the possibilities of retrenchment in expenditure, and the exaggerated solicitude of an almost impertinently officious nature that they have so unwarrantably displayed for revenue. The fiscal problem must be settled apart from the immediate revenue needs of the Government. If and in so far as they are unavoidably, inextricably connected, they must be assigned a secondary place in the discussions and recommendations of such a body, leaving it to the Supreme Legislature, to which in propriety such considerations really appertain, to settle the exact measure of importance that shall be attached to revenue considerations as against the industrial needs of the country.

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* Since this was written the Indian Legislative Assembly unanimously adopted at its sitting in February 1923 the following resolution moved by the Commerce member Mr. Innes:

"That this Assembly recommends to the Governor-General in Council (A) that he accepts in principle the proposition that the Fiscal Policy of the Government of India may legitimately be directed towards fostering the development of industries in India, (B) That in the application of the above principle of Protection regard must be had to the financial needs of the country and to the present dependence of the Government of India on import, export and excise duties for a large part of its revenue, (C) That the principle should be applied with discrimination with due regard to the well-being of the community and the safeguards suggested in paragraph 97 of the report of the *Fiscal Commission* (D) That in order that effect may be given to these recommendations a tariff board should be constituted for a period not exceeding one year in the first instance. That such tariff board should be purely an investigating and advisory body, and should consist of not more than three members, one of whom should be a Government official, but with power subject to the approval of the Government of India to co-opt other members for particular enquiries."

Premising this as an axiom, we may yet observe that the proposals of the most uncompromising protectonist cannot quite abolish the receipts of the Indian Government from the Customs depaitment. Paradoxical as it may sound, it is, indeed, doubtful if, under a rigid system of uncompromising protection to indigenous industry, the revenue would really fall. There is nothing to prevent a purely protectionist tariff schedule from having a certain number of duties levied entirely for revenue considerations. Articles which you cannot possibly produce in the country for physical reasons, but the demand for which is fairly constant, may be taxed on import for revenue. And even in the taxes imposed for the purpose of protecting domestic industry, as already observed in a previous section, some trade is bound to persist. The higher the duty the greater the protection, and also the greater the yield. In the case of articles of pure luxury, though the term is relative, duties may be imposed for revenue at a rate not required by considerations of mere protection to the local industry of a like nature. The consumer of such articles is presumably able to pay these duties, and if incidentally the protection to the local industry becomes more effective, why, that is so much to the credit side without a corresponding debit entry at all. Finally, in proportion as Protection succeeds, and domestic industry becomes more profitable, there would always be the possibility of adding to the taxation of industrial profits, which would be an ever increasing source of revenue precisely in the measure in which protection succeeds. An uncompromising protectionist attitude, therefore, cannot be said to ignore altogether the revenue needs of the country.

But besides these possibilities, the revenue needs could have been amply provided for by the Commission, even under their own recommendations, without trenching upon the amount of protection to be granted to Indian industry. The Commission has failed to estimate adequately the possibilities of the Export Duties, which would continue. They have exaggerated the danger of substitutes in the case of articles which are our practical, if not complete, monopolies. In theory it sounds quite insinuatingly true to platitudinise:—

> "But only in the case of absolute monopoly for which the demand is stable can it be asserted generally that the world price would be raised by the full amount of the export duty, and that, therefore, the whole export duty will be paid by the foreign consumer, and none of it by the home producer." *

But in practice a good deal of the capital and labour required in the highly complex modern manufacture is so specialised that it is not easy to transfer it to another industry, merely to avoid the burden of an export duty in another country. Granting the truth of the Commission's observation that:

> "Now a protective duty needs to be fairly heavy if it is to be effective. The cost of the raw materials forms only a part of the cost of the finished article. When export duties are used for protective purposes, therefore, the tendency must always be a serious burden on the producer." †

It would follow, by parity of reasoning, that export duties at moderate rates on our practical monopolies of raw material cannot transfer the burden to the manufacturer of this same material at home, and at the same time will not affect the revenue yield. A duty of 25 per cent. on our practical monopolies at the point of embarkation would not affect the foreigner's cost of raw material beyond 1/4; and, if the cost of raw material is ½ of the total cost of the finished article, the utmost rise in price that the foreign producer must insist upon would be 12½ per cent.,—a rise which can much more easily be achieved than risk the transfer of the specialised labour and capital to new and untried fields. The danger of substitutes being discover-

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* Para 173.

† Para 180.

ed, on account of the stimulus offered by the increase in the cost of production by 11 per cent, is too remote to need special consideration. The progress in science would indeed go on independent of such artificial means; and we need not, because we cannot, make allowance for the infinite possibilities of human intelligence and ingenuity. We may only add that the discovery of the aniline dye was brought about, and the export trade in indigo from this country was hit hard even before there was an intention to manipulate export duties for the purposes of revenue.

It may be pointed out in passing that para 176 of the Report introduces an argument, which, as already observed, has no logical connection with the subject of the inquiry.* If the currency organisation of India demands a manipulation of the balance of trade to the prejudice of Indian industry, we would regard that as the most unanswerable argument to demand an immediate and complete recasting of the entire Indian Currency system, rather than found upon it an argument for tinkering with trade balances or modifying the fiscal policy.

It is perfectly sound logic to say:—

> "The peculiar characteristic of a protective export duty lies in the fact that the protection operates on the raw material of the industry, and, therefore, places the whole foreign product at a disadvantage, whereas a protective Import Duty merely affects such portion of the foreign product as would ordinarily come to the protected market." †

But for completeness of reasoning it must be added that export duties, whether for revenue or for protection, should be levied only on our monopolies, whether absolute, as in the case of jute, or practical, as in the case of some of the oil-seeds. On this principle an export duty on jute, whether raw product or the finished article, may be approved, but not an export duty on cotton. Though the exports of raw cotton is something like 2/3 of the total Indian produce, which might well be desired to be manufactured in the country itself; and though there is a belief in some quarters that the short staple Indian cotton is a practical monopoly of this country, at least so far as the Japanese Mills are concerned; we must not omit to take account of the possible competition from China and the Straits and other countries of our Near East. It is arguable that a small export duty of 5 per cent. or 10 per cent. at most would not affect the demand for Indian cotton, nor unduly depress the price. But such a recommendation is fraught with the danger of distrust arising in the mind of the home producer of this article, and rather than arouse such needless distrust, we must try and devise the fiscal policy so as to engender the least suffering upon the domestic producer, whether in agriculture or in industry. The United States constitution has solemnly prohibited the imposition of export duty on any article of local production. The sentiment which has influenced this provision is too laudable not to find imitators and advocates in India. But for those, who, like the Indian Fiscal Commission, (Majority) are almost nauseatingly insistent upon the revenue requirements of the Indian Government in framing their recommendations, the suggestion that the small Export-duty on tea should be abolished (para 187.)[*] cannot but sound extremely inconsistent, and will very probably expose them to the just suspicion that in this and similar recommendations they have been influenced, not by the interests of the entire country, but rather by the pressure from an influential class operating against the collective interests of the community. The same spirit of class bias dictates that other recommendation of theirs, which, though worded in general terms, is manifestly applicable to the case of Jute only.

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* "Export duties tend to diminish exports and thus to produce an adverse effect on the balance of trade. If this effect is pronounced, it may cause for a time, at least, difficulties in regard to the foreign exchanges." Para 176.

† Para 177.

> "Even in the case of monopolies, therefore, in which there is a reasonable probability that the export duty will not fall on the Indian producer, we cannot recommend that an export duty should be imposed for purposes of protection."[†]

A high export duty on jute,—an ideal for such taxation under existing conditions,—imposed for purposes of protection, would only mean that this country has decided that the entire output of raw jute should be manufactured in this country, or in the alternative, should be made to pay proportionately to the Government as a sort of compensation for the reduction of industrial employment in India owing to the export of a portion of this commodity for manufacture abroad. We cannot see that there can be any logical, or economic objection against such a policy,—bar, of course, the interest of the Anglo-Indian exporter of the produce and his Dundee confrère the manufacturer.

There is, no doubt, wisdom in the attitude that Indian protectionism should be defensive, not offensive, and the consequent suggestions about not taxing the export of those raw materials which may be our practical monopolies, but which are also indispensable for the industry of other countries. Take oilseeds for example. We recognise the danger of frittering away our own resources of raw materials by an illtimed policy of free trade in them. We appreciate the danger to our manufactures, protected by heavy import duties, but exposed to the loss of raw materials by absolute free trade in them, and the consequent handicap to them from their better equipped, better organised and more efficient competitors. But we must also recognise the much greater danger of arousing class antagonism in India itself, and the not inconsiderable risk of foreign retaliation.*

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[*] "The export duty on tea should be treated in accordance with the general principle we have laid down. It has clearly been imposed for revenue only, and the rate is moderate. But it can hardly be said to comply with our third condition, namely that the article should be a monopoly or a semi-monopoly. It is true that an export duty is imposed in Ceylon at the same rate as that levied in India, and that in 1919 India and Ceylon between them provided 67 per cent. of the tea exports of the world. But tea is a highly competitive produce and it is clear that India and Ceylon are not able to impose their terms on the market. The production of tea in Java has increased very rapidly in recent years, and in the markets in which it meets Indian and Ceylon tea has been to some extent displacing them. This tendency is most clearly marked in Australia where Java which in 1912 supplied only 12 per cent. of the market, supplied in 1919-20 as much as 41 per cent. In the United Kingdom also in spite of the preference granted to Empire teas the production of tea imported from Java remains appreciable. Java tea makes its way in virtue of its cheapness. It is therefore inexpedient to handicap Indian tea by an export duty at however low a rate. We hold therefore that the export duty on tea should be removed."

[†] Para 181.

As regards food grains, we may agree in the general proposition

> "that in normal times any restriction whether by export duties or by any other means is contrary to the true interests of the country."†

But we doubt if the Commission has amply allowed for the very common contingency of a failure of crops. Admitting that there are no reliable statistics to show whether or not the Indian food-supply is adequate to India's requirements; admitting that the more effective remedy in this connection is a well-planned series of agrarian measures rather than fiscal restrictions, we must yet grant that those restrictions have quite a utility of their own in abnormal times. But even so, it is impossible to agree to the Commission's finding in the matter either of the recent prohibition of the export of wheat, or of their approval of a small revenue duty on the export of rice.‡ The recommendations are, to say the least, mutually inconsistent,—a common complaint against this obvious composition of impossible compromises.

XCIII. EXCISE AND CUSTOMS IN A PROTECTIONIST TARIFF.

The most serious objection to the recommendations of the Commission would be in regard to their chapters on Excise in general and the Indian Cotton Excise in particular. They seem to have been unduly influenced by the view adopted in para 146 of the Report:—

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* Para 196-198 of the Report.

† Para 204.

‡ "So long as a substantial quantity of the commodity continues to be imported from countries to which the preferential rate is not extended, the price of the commodity will be regulated by the higher duty. The consumer will thus pay the higher price on the whole supply, and the difference between the two rates of duty will be equivalent to a bounty to the manufacturer in the country receiving the preference. When, on the other hand, the country receiving the preference supplies practically the whole market, then the price to the consumer will be regulated by the lower rate. The bounty to the foreign manufacturer will cease, and the consumer will get the benefit of the lower rate." Para 225.

> "In India, on the other hand, as we have shown in chapter V, *there is not much scope for futher direct taxation*, and the Government has to obtain a considerable portion of its revenue from indirect sources."

In addition to the high, protective Customs Tariff, which the Commission would make still more onerous by including in its construction revenue consideration, they recommend excise duties to assist our impecunious Government. They forget that consumption taxes are generally objectionable, because they fall with undue severity upon the classes least able to support the burden. Their retention in either of the two important forms—Customs and Excise—could be justified only by grave reasons of national importance. We accept the burden of a high protective Customs Tariff, not because we ignore the mischief involved in high customs duties, but because we regard it as the unavoidable price that a nation with industrial ambitions must pay for its development to the point desired. The developing industries must add to the purchasing power of the classes most concerned, and so the evil will be made to provide its own antidote. Besides, when the goal of industrial development is achieved, not only the burden of these duties would be automatically reduced by the stress of internal competition; but, in proportion as the goal comes nearer and nearer, it would be easier to replace such indirect taxation by more direct taxation.

But that other form of indirect taxation—Excise Duties,—can have no such justification. There are cases in every Budget, no doubt, wherein the Excise duties are levied on articles of general consumption, but the consumption of which is as commonly condemned. The duties in such cases are not primarily or even exclusively to be regarded as means of supplying revenue to the State. They are rather an engine of social reform, an indirect means to prevent or at least minimise deleterious consumption, by adding to the cost of the injurious article. Excise duties on spirituous liquors are the most common illustration of such a thesis, and we might add to them the case of tobacco, hemp, opium and other similar drugs. Even in such cases authorities are not quite agreed as to the degree of success achieved by these duties in accomplishing their real object. The link forged of these duties between the modern extravagant Governments and such iniquitous traffic is freely deplored on the ground that the increasing dependence of these Governments on such sources for a considerable portion of their revenue will not permit them to be sincere in their attempts to stamp out this traffic altogether. For a complete success of high excise duties from a social standpoint on such articles may mean the utter loss of that portion of the public revenue, which the Government concerned might not find easy to replace at a moment's notice. But, quite apart from ethical or economic considerations against Excise duties on articles of general, though injurious, consumption, there are other reasons of economics, in the narrower significance of the term, which militate equally against Excise duties in general. There is a radical distinction between the operation and incidence of Customs Duties, particularly of a protective nature, and Excise duties on domestic production. The Excise duty imposed for revenue must needs select articles of general, if not universal, consumption, and these must press disproportionately upon the poorer classes of the community. While protective Customs Duties help to build up industry, and thereby increase employment, Excise duties are a net tax on consumption, and must affect the consumption of what Dr. Marshall would call the necessaries of industrial efficiency. By the operation of the Excise duty, industry tends to be depressed not only as the direct result of the tax, but also as the consequence of the diminished efficiency of labour owing to the reduced consumption of the taxed necessaries of efficiency. With a reduction in income, such duties would bring an addition of expenditure, and will, as such, be doubly burdensome.

We might also note, in passing, that, as a matter of history, the suggestion of looking to the Excise duties as a source of revenue is insupportable. The first concern of the Revolutionaries in 1789 was to abolish at one stroke the myriad of indirect taxes that disgraced the "*Ancien Regime*" in France and which we would now class as Excise Duties. The same spirit of popular hostility to such taxes characterises the financial history of the United States, where they admitted these questionable helps to the public purse under the stress of the War of Secession, but abolished them at the first convenient moment after the War was ended. No doubt, they still linger in some antiquated systems of national finances; but they cannot possibly be defended on the broad principles of political economy. As the greatest authority on Public Finance, Leroy Beaulieu, has observed,

> "the taxes on consumption are less proportionable than the direct taxes to the income of the tax-payer. By themselves alone, they would constitute a system of taxation which would be detestable and singularly iniquitous."

On such considerations, it is impossible to accept the conclusions of the Commission in the matter of the Excise Duties. They observe in para 169:—

> "That the existing Cotton Excise Duty should, in view of its history and association, be unreservedly condemned, and the Government of India should frankly express their desire to clean the slate."

But in spite of this admission, the whole chapter on Excise in general, and its sequel on the Indian Cotton Excise Duties in particular, reads like a laboured special pleader, which is bad ethics, bad politics, bad economics. It is bad ethics, because it makes no allowance for the injurious character of some of the consumption liable to taxation under their suggestions, and because it omits to consider the force of distributive justice in apportioning the taxburdens between the various classes of the community. It is bad politics, because it ignores the rising tide of democracy operating in other countries against the maintenance of indirect burdens in any form, and also because the recommendations betray an undue, obvious bias in favour of the propertied classes. Such a bias is, to say the least, inconsistent with the Commission's insistence upon the interests of the consumers in their endeavour to emasculate the force of protection they themselves recommend. Even on the narrower considerations of Public Finance, their recommendation in favour of Excise as a source of revenue is grounded on an erroneous principle. Dr. N. G. Pierson, once Prime Minister of Holland and well-known for his standard work on the Principles of Economics, observes :—

> 'It is an essential characteristic of all taxes on expenditure that the faculty on which they are based is not one calculated or estimated by the the exchequer, but one which the tax-payer imputes to himself. Whoever lives beyond his means, or, without the least necessity, spends a large part of his income on things which are heavily taxed, will experience excessive pressure from the taxes."

But for this he cannot be blamed if the tax is imposed on necessaries of life, or efficiency. He cannot economise in their consumption without impairing his efficiency, without impairing the national dividend. The standard of expenditure is often incapable of adjustment to the means of the individual, and the hardship is the greater as we go lower and lower down in the scale of social stratification. Expenditure taxes, and particularly Excise duties on home-made goods, the consumption of which it is not deemed necessary to prevent on ethical or economic grounds, must be condemned as offending alike against ethics, politics and economics. Their continued existence in modern budgets is not an evidence of their excellence or desirability, but rather of the poverty of the modern financier, the injustice of the modern social organisation, the imperfection of the modern system of wealth distribution.

The objection to the Commission's recommendations on this score is further strengthened by the inherent inconsistency of the recommendations. Para 150 says:—

> " We have already pointed out that the Excise duties may be regarded as an addition to the cost of production, and, unless they are countervailed by corresponding Import duties, they may injure the domestic producer in two directions. If he is in a position to make the consumer pay this extra cost by increasing the price of goods, the demand for the goods is liable to be reduced This result would decrease the yield of the tax and set a natural limit to the rate at which it could be profitably imposed. The contingency is not likely to escape the attention of the Government. If, on the other hand, the producer is unable to get a higher price from the consumer, the tax will operate directly to reduce the former's profits, and may do serious injury to an industry that requires protection. We would, therefore, lay it down as a general principle that an Excise duty should

> not be allowed to trench on the degree of protection required for any industry. When that degree has been determined by competent authority, any further taxation. that it may be deemed necessary to impose on the commodities concerned, should be so adjusted as to leave the required protection undisturbed. An Excise duty by itself would tend to render the protection inadequate; a simple addition to the Import duty would impose an unnecessarily heavy burden on the consumer; whereas, as shown in the illustration given above, *"a combination of the two would bring the greatest return to the Treasury with the smallest cost to the tax-payer."*

In suggesting a combination of protective duties with the Excise burden in the interest of the public purse, the Commission surrender their fundamental position of primarily considering the interests of the consumer. A double duty is a double burden, and cannot but injure the consumer. Those who, for revenue reasons, would suggest such an absurd combination, cannot possibly be heard when they plead the interests of the masses for limiting the extent of the protection to be given to Indian industries. Besides, the whole paragraph is based on false assumptions. The financier, seeking revenue from Excise duties will naturally select articles of inelastic demand and universal consumption. The producer, therefore, in almost every one of such cases, would be able to increase the price and pass on the burden of the duty to the cosumer. And yet the demand will *not* be reduced. There is consequently no room for the latter alternative elaborated by the Commission. The Excise duty, therefore, if once permitted, will never be relaxed or repealed by a Government intent upon seeking funds for its uncontrollable expenditure. Hence on grounds of general economy as well as those of political expediency, I refuse to believe that Excise duties are theoretically defensible or can practically be beneficial.

Of course, in this conclusion, we do not allow any weight to the financial needs of the Government at present, not only because we are here considering an issue of national policy, affecting an entire generation, while the financial needs of the moment are relatively only a temporary feature; but also because the financial needs suggest, if anything, an urgent need for a radical revision of the scale of public expenditure in India, not a meddling with the national economic policy of the country. During the war, for example, the financial needs of the British Government were the most stringent that could be urged in extenuation of any orientation of policy that could have been suggested. It was in response to this grave emergency that Britain abandoned her traditional policy of free trade, or low customs duties on a few articles, and imposed as much as 50 per cent. duties on such articles as motor cars, cinema films and a number of other luxuries. But even for the sake of the urgent financial needs in war-time, nobody ever suggested in England the imposition of equivalent countervailing excise duties on the similar British manufactures, even though the strict application of orthodox economics would have demanded such a course. We refuse to believe that the financial needs of the Indian Government are more urgent than those of the British Government in war. We refuse to believe that the Indian Government would be right, or could be justified, in imposing or maintaining excise duties on Indian manufactures under any pretext, least of all on the excuse of their momentary financial needs. We refuse to believe that there are even any great revenue needs of the Government which could not be amply met by adequate, and overdue, economies in their extravagant expenditure. Hence the Commission's officiousness in para 169

> "We recognise the present financial difficulties of the Government. We realise that the Cotton Excise Duty brings in a revenue of over two crores of rupees a year. We realise that to abolish the Excise Duty while leaving the Import Duty at its existing level of 11 per cent. might have the effect of contravening the principles of taxation which we have evolved in the preceding chapter, and of sacrificing a source of revenue without affording to the masses a corresponding reduction in the cost of their clothing."

leaves us frankly amused. We have already discussed the precious "principles of taxation" that they claim to have "evolved." The suggestion about the uncompensated 11 per cent. duty on foreign cloth becoming a burden is an unabashed *petitio principii.* For, it has yet to be proved whether the present purely revenue duty is really protective to the extent that even this Commission in its moderation would approve. And even granting that for effective protection the import duty on foreign cloth need not be at this figure, that does not contravene in any way the very strong case for the complete, immediate, permanent abolition of the offensive excise duty on Indian cotton. Their yield of two crores constitutes an argument which may best be left to the Inchcape Committee, who must decide how far the Indian Government is in a position to remit this duty, which offends so strikingly against every canon of national economy, against every dictate of political propriety, against every consideration of equity in distribution. For our part, we would only point out that a Commission recommending the discontinuance of a number of purely revenue duties, like the one on the export of tea for example, sounds strangely oblivious or incoherent when it emphasises the revenue aspect of the Indian Cotton Excise Duties. But of this we will say later on.

XCIV. THE FREE INVESTMENT OF FOREIGN CAPITAL.

The Fiscal Commission's views on the investment of Foreign Capital in India must provoke the strongest possible opposition in the country. They platitudinise in para 269:

> "We hold, therefore, that, from the economic point of view, all the advantages which we anticipate from a policy of progressive industrialisation would be accentuated by the free utilisation of foreign capital and foreign resources."

But this platitude fails to give its due weight to the present political situation, which is characterised by acute racial tension between the Indian and the foreign exploiter of our resources. The Commission believed, without any apparent reason, that the present tension is a passing phase, which will soon die out. But even so, to frame recommendations on the most complete neglect of the most glaring fact of the actual situation cannot but detract from the value of the Commission's report as a document of practical propositions. It would have been wiser to frame their recommendations with due regard to the actual situation, leaving it to a later and happier generation to modify them, should the then situation appear free from any racial tension between the different classes engaged in the industrial regeneration of the country.

In analysing the causes of the prevailing distrust of the foreigner,—and, it may be noted, in passing, the Commission do not dispute the fact of the distrust, they only ignore it,—they have not quite understood the distinction that the present distrust is not so much against foreign *capital*, as against the foreign *capitalist*. Under the present unfortunate political situation in India, the foreign capitalist is able to command the mystic sympathy of race, even when he cannot boast of more obvious relationship with the ruling race. Thanks to this sympathy or relationship, he has hitherto been able to obtain information and even concessions which place him in a position most favourably, but quite unfairly, to compete with his Indian confreres in business or industry. Once entrenched in this privileged position, no matter by what means, he is inclined to regard his unjust privileges in the light of his Vested Interests, which, being indefensible, the foreign capitalist is driven to adopt an aggressive attitude even before any attack is manœuvred againt his insupportable privileges. The Commission could not deny the existence of such a situation, and their airy nonchalance in observing that

> "we do not propose to discuss the accuracy of these propositions which are obviously incapable of definite proof" *

will not mend matters. For it is equally an assertion on their part to say :—

> "There appears to us to be a growing tendency, due to economic causes, for foreign capital to indentify itself with Indian interests of India, and we believe that the training of Indians for posts of greater responsibility will proceed apace without recourse to the doubtful expedients that have been suggested to us."

There are, in fact, no signs of such a desirable consummation. The foreign capitalist in India tends, and must tend, to be more and more a bigoted defender of indefensible privileges. Spoiled by undeserved consideration in the past, he is unable to appreciate the tendencies of to-day, and incapable of sympathising with them. Embittered by the conviction that he is in a hopeless minority, he is reckless of the expedients adopted to defend a position of exclusive benefit. These facts constitute a grave objection to the encouragement of the foreign capitalist in India, who cannot sympathise with the altering conditions and interests of the people of India.

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* Para 290.

There is, however, a much stronger reason against the free encouragement of the foreign capitalist. He wields a wholly disproportionate and entirely injurious influence on the national policy of the country. The annexation of Burma in 1886-7, for example, was carried out largely, if not wholly, with a view to enable European concesssionaries to exploit the rich petroleum resources of that country, leaving India the costly glory of defraying the expenses of that unnecessary conquest. What happened in Burma in 1886 might, for all we know, happen in Mesopotamia in 1926 if the recommendation of the Commission is adopted. This is seriously objectionable in itself. But we can point to other equally indisputable facts to show the workings of the same sinister influence. Take the long continued bias in favour of some scheme of Imperial Preference, however unsuitable to Indian conditions, or the manipulation of the Indian Currency system in the nineties, and again in 1920. These blunders, to give them no harsher name, have riveted in the Indian mind a most deep-seated prejudice against the foreign capitalist, and we wonder how a body of presumably sane practical men of the world should have persuaded themselves to ignore the force of such a patent factor.

The distinction between foreign capital, and foreign capitalist is essential, because, under certain conditions the latter may quite safely be welcomed for the sake of a more rapid development of our industries. If foreign capital in India could be confined only to its legitimate reward—its stipulated interest only—and if its entire command, direction, and employment should be left in Indian hands, there could be no great objection to its being used for the development of Indian industries. An Indian enterprise, obtaining foreign capital by means of debentures, could be perfectly permissible, and even worth encouraging, if the necessary capital is not found for a promising industry in India. But when foreign capital demands as the price of its investment in India, besides a net return by way of interest, complete control and direction of the enterprise started by its aid, we would rather consent to the development of India being postponed than see it accomplished at such a cost. There is sufficient bitterness about the advantages (?) to Indians from industries developed by foreign capital—Tea Gardens of Assam, for example, with their perennial troubles with the coolie labour,—not to permit of their being excessively enamoured of its charms.

The root evil of the investment of the foreign capital in India is, thus, the disproportionate influence it accords to the foreign capitalist in the direction and management of the enterprise. To this may also be added the more obvious evil of the drain caused by such investment, which, economically speaking, becomes the most objectionable when it carries away from the country, not only its legitimate interest but also the surplus profits of the industry. And there are no corresponding advantages to set off against these manifest, palpable evils. To the Commission the argument that adequate capital is not available in India has appeared so strong that they have laid down :—

> "The more capital is laid down in the development of industries, the more rapid will that development be, and, therefore, the shorter will be the period of the burden on the consumer." *

We think it much more likely that more inefficient concerns would be started if foreign capital is indiscriminately attracted in a frenzy of industrial development, with all the possible dangers of price-cutting at first, leading to excessive combination and practical monopoly to the gravest possible prejudice of the consumer in a very short time.

But granting all the advantages claimed on behalf of the free investment of foreign capital, we must yet point out that its necessity would arise only if we assume that Indian capital is not available. The experience of the recent Government borrowing programmes ought alone to disprove this gratuitous assumption. If the success of public borrowing is the result of factors other than economic, there is the further evidence of recent floatations of Joint Stock Companies, which cannot possibly allow any longer the belief in the legend of the shyness of Indian capital for industrial investment.

The myth was manufactured for their own ends by those who wanted to reserve the lucrative avenues of lavish Indian Government borrowing for themselves; and there is no call upon us to give any unnecessary currency or credit to such interested libels on our people. The capital recently invested in unproductive Government loans, as well as in profitable industrial and commercial enterprise, affords every reason to hope that the whole of the requisite capital for our industries,—estimated at Rs. 1,000 crores in the *Sixty Years of Indian Finance*,—can be found in this country, if only proper steps are taken to attract it.

The last sentence really contains the crux of the entire difficulty about capital. India is yet very backward in institutions to attract and employ the idle capital of the country. Before, therefore, deciding for a free field for foreign capital, it is incumbent upon the fiscal legislator to try measures, successful elsewhere, for the greater attraction of indigenous capital for industrial purposes. Proper industrial banks, coupled with efficient money saving devices, would release a very considerable capital for industrial investment without any special need to tempt foreign capital.

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* P. 289.

This opposition to the free investment of foreign capital in India need not necessarily imply that we are ignorant of the practical difficulties in the way of excluding such capital from India. The Commission's arguments in para 291 are more or less sound, though the accuracy of some of the observations may well be questioned. For example, they have given no authority for the observation that:—

> "It is, perhaps, not generally realised that the Law at present provides that any Company trading in India must be registered in India."

But *pace* these cryptic remarks, we may admit the force of their reasoning. But they ought to have recognised that India is not the first nor alone in this distrust of the Foreign capitalist coming in the wake of his investment. The distrust of the foreigner colours the whole system of the English Common Law, and even to-day, an alien is not allowed to be a proprietor, in part or wholly, of a British ship. *

> "It is only in the early stages of capitalistic production," says Dr. Grunzel in his *Economic Protectionism*, "that the foreign investor's capital will be viewed by a country as desirable. As soon as the spirit of enterprise becomes active in the country itself, attempts will not be wanting to replace such capital by foreign loan capital, which leaves in the possession of the debtor country the excess of its earnings above interest, thus operating to enrich the latter more rapidly and at the same time eliminating the unavoidable personal influence of the foreign capitalist on the domestic economic policy. The most insistent opposition to the foreign enterpriser will be found in the case of those enterprises to which is entrusted the safeguarding of any special economic interest of the community in the field of national defence, of trade, industry, or commercial policy."

This great authority mentions the instances of China, legislating since 1908 against foreign capital in mineral concessions particularly, of Roumania and Greece and Chili proceeding on like lines to exclude or impede the investment of foreign capital in their national industries. To these might be added the instance of the War Precautions Repeal Act of 1921 passed by the Commonwealth of Australia and relating to the Foreign Companies in that country. Section 8 of the Act provides that

> "no Company in which more than one-third of the shares are held by aliens shall acquire any mine or interest in a mine or carry on any mining or metallurgical business."

The same section forbids an alien to acquire any share in any company incorporated in the Commonwealth without an express consent in writing of the Commonwealth Treasurer.

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* Vide The *Merchants' Shipping Act of* 1894, section 1.

With such precedents, would it be unreasonable for Indians, with their experience, to require that in certain specified cases at least the investment of foreign capital in Indian enterprise be restricted? The actual restrictions mentioned in para 292 of the Report upon Companies working a public concession are quite inadequate, and entirely beside the point in connection with the specific question here considered.* It must be clearly laid down that industries of prime importance—the so-called Key industries,—or those of military significance—shall be confined exclusively to Indian capital, Indian management, and Indian direction. These may, indeed, be permitted to raise debenture capital, if necessary, from outside India, if Indian capital is not forthcoming in the required quantity. Industrial and agricultural banking, shipping and ship-building, mining and metallurgy may also be placed in the same class. In such concerns no foreigner should be allowed to hold any share, and they must be compulsorily registerable as Indian Joint Stock Companies, with rupee capital and Indian domicile. In concerns, again, which are assisted directly from the public purse by bounties or subsidies, foreigners should either be completely debarred from holding any shares, or their holding be strictly restricted, not exceeding one-half. Finally, in industries already developed by Indian capital, and which are granted protection to ensure more rapid development, foreigners may be permitted to invest, subject to sanitary conditions about Indian registration, rupee capital &c. which the Legislature may prescribe in that behalf. Provision must also be made by law for securing a certain proportion of Indian representation on the directorate in any enterprise which is likely to benefit by the protectionist policy of the Government in India. The restriction of the right to transfer his holding, which the Indian shareholder will have to submit to from these regulations, will be no great hardship. But even if it is, the Indian capitalist may well be called upon to bear it. in return for the advantage of protection he is offered under the new policy of rigid protection of Indian industries. The argument in para 291 is thus meaningless.

XCV. IMPERIAL PREFERENCE.

Perhaps the greatest fight on the proposals of the Fiscal Commission will take place on their recommendations regarding the desirability of any scheme of Imperial Preferences in the true interests of India. As usual with this body, they have made a proper inquiry in para 224:—

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* "Where the Indian Government is granting concessions or where the Indian taxpayers' money is being devoted to the stimulation of an enterprise, it is reasonable that a special stress should be laid on the Indian character of the Companies thus favoured. In all such cases we think it would be reasonable to insist that Companies enjoying such concessions should be incorporated and registered in India with rupee capital, that there should be a reasonable proportion of Indian directors on the Board and reasonable facilities should be offered for the training of Indian apprentices at Government expense."

> "Where the preferential rate is a real reduction in duty, or where the general rate has been arrived at by making an addition to what is considered the minimum duty, which thus becomes the preferential rate, is, in considering the economic effect, immaterial."

But, finding that it would not square with the recommendations they must make, they have disowned the question entirely. The distinction is, however, most material in considering the consequences involved in the preferential treatment of the imports from a given country. Under the former alternative, the preferential rate is a real reduction from the general rate, which consequently implies a *pro tanto* reduction in the protection given to the domestic industry. In the latter case, the general tariff being fixed by making an addition to the preferential rate, which, however, does not infringe in the least upon the protection intended to be given to the national producer, there is no risk under that principle of the domestic protection being neutralised by the preferential treatment of certain Imports. The Commission are themselves aware that

> "in no case do the Dominions allow these preferences to interfere with the degree of protection which they consider necessary for their own industries."*

We do not see why India should adopt Preference towards imports from countries of the British Empire by sacrificing this sound principle of national industrial development, assuming, for the sake of argument, that any Preference is at all advisable. The first axiom of the revised Indian Fiscal Policy should be that the *Indian industries must be developed at any cost.* All other considerations must be secondary and subordinate to this prime requirement, and those who ignore it or compromise with it, cannot escape the charge of having sold the true interests of the country. The Protective Duty, therefore, imposed for the benefit of the Indian industry, must be considered as the minimun, which should not be reduced for any extraneous considerations. Preference, therefore, if at all it is to be granted to goods of British Imperial origin, must take the form of a surcharge on goods of non-British origin.

There are two obvious objections to this method of granting Imperial Preference. Being an obviously unfavourable discrimination, the surcharge of foreign goods would invite retaliation from the countries affected immediately. It is, indeed, quite true to say that

> "the strength of India's position as to the raw materials of manufacture, many of which we monopolise or purely monopolise, had been underestimated, and that the Indian export trade was not likely to be seriously prejudiced by any retaliatory action taken by foreign countries." †

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* Para 219.

† *Committee on Imperial Preference* 1920.

But even though there is no great danger to the Indian export trade by the retaliatory action of foreign countries, we conceive it to be imprudent to make such an obvious discrimination and provoke needless hostility. For, at the present moment, the trade of India with other countries is insignificant, but as time goes on that section is bound to grow. It must not be forgotten that the principle of Imperial Preference, if admitted on these lines, would, for example, compel India to discriminate against the Japanese cotton imports in favour of the British imports of a like nature; so that if Japan retorts, she can materially injure the export of Indian cotton to that country, and the Empire will not compensate India for such a loss in any way. It would be an extremely shortsighted policy to neglect all possible contingencies merely because for the moment our exports are practically unassailable. The purchasing power for Indian goods in the British Empire is rapidly falling, and we see no great likelihood of Indian exports being principally absorbed by countries of the Empire. The trade of India points fair to remain in growing proportions with non-British countries in the coming generation; and on that basis such a scheme of Imperial Preference cannot but injure the true interests of India herself.

This conclusion is further supported by the belief that a successful policy of Protection in India must rapidly and radically alter the character of the Indian trade. We are to-day, principally the exporters of raw materials. We may quite probably find manufactures taking a more and more important share in the schedule of our exports, if the policy of Protection is well conceived and rigorously applied. In such an eventuality, the danger of retaliation is one that cannot be dismissed with the airy non-chalance of the Commission. There is, besides, the more important consideration of the cost to the consumer. If the system of protection of native industries is exposed to the criticism of costliness to the consumer, the system of Imperial Preference is doubly exposed to the same defect, and should have been definitely condemned *in toto* by a body so painfully anxious to secure the interest of the consumers, even by regarding the speed of full industrialisation in India.

In truth, the position of the Commission is wholly untenable and thoroughly inconsistent. Speaking of the overwhelming mass of evidence *against* Imperial Preference, because of the witnesses' apprehension that Imperial Preference would in practice mean the negation of Indian protection, the Commission observe:

> "We need hardly say that if such were the probable consequences of a policy of preference, we should as strongly and as unreservedly, as the witnesses to whom we have referred, pronounce our condemnation." *

And yet they have failed to give any reasons why they could anticipate any other consequences at all favourable to India. Their recommendations, therefore, are theoretically unsound, and practically opposed to the evidence they themselves have recorded.

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* Para 240.

The conditions under which the Commission would advise a policy of Preference exhibit the same medley of inconsistency and incompetence characteristic of all the recommendations of this body of compromises. Para 245, for instance, requires that preference should be granted only to such British industries as already command the Indian market. In that case, what is the need for preference at all? And, if granted, who but the Indian industries would be actually the sufferers from this ill-timed jest of Imperial patriotism? Had the Commission given any instance of their sage observation,

> " we recognise that there may be cases particularly arising out of such temporary conditions, in which India might be in a position to give assistance to British industries without bringing an economic loss to herself,"

we might have been better able to criticise or appreciate their suggestions. As things stand, we can think of no instance in which the adoption of Imperial Preference by a protectionist India would not hurt either the producer or the consumer in India quite unjustifiably as a result of that policy.

There is another case of serious dereliction of principle in the forced arguments of the Commission on this subject, which is well worth noticing. They say:—

> "In the same way if India is to adopt the principle of Imperial Preference, she must adopt it *freely* to the extent to which she can do so without detriment to the interests of her own people. She receives already certain preferences from the United Kingdom. She recognises with gratitude the spirit in which they grow. She would not wish to look too narrowly to the actual economic conditions of these preferences; and in turn she would expect that the preference, which she finds herself in a position to grant, without serious detriment to her own interests, should be received in the same spirit, and should be regarded as a *voluntary gift* and not as part of a bargain."*

But if the grant of Preference is to be a free expression of India's gratitude (*sic*), would it not have been as well if the Commission had omitted any reference to the benefit India receives from the British preferences? They really imply a bargain, but would not permit India to judge too narrowly the merits of the bargain they suggest,—because they are at heart afraid the bargain has in reality no merit for India at all. It was supremely unwise of the Commission to allow considerations of gratitude (?) to intrude upon their purely economic deliberation. For there can be no gratitude in economics, nor yet in politics. If British interests are strong enough, or the Indian champions are weak or foolish enough, a policy of Preference will be forced upon this country, however manifestly unjust and unprofitable it may be to Indian interests. But why suggest that such a naked act of *force majeure* is an expression of gratitude? The same mistake of introducing wholly irrelevant considerations has dictated the stupid observations of Para 260:

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* **Para 254.**

> "We do not forget that the United Kingdom is the heart of the Empire, that upon its strength depends the strength and cohesion of the Empire; and that its strength is bound up with the prosperity of its export trade. .... If the United Kingdom does not maintain its export trade the Empire will weaken, and this is a contingency to which no part of the Empire can be indifferent. Nor again do we forget that the connections of the Empire are guarded by the British Navy, and that the burden of maintaining that essential service falls almost entirely on the people of the United Kingdom."

Here is another distinct suggestion of a bargain. In return for the protection of the British Navy, the outlying parts of the Empire are invited by implication to support the export trade of Britain. This is, to put it mildly, a purely political issue, which need not have been introduced at all in this discussion. If Britain maintains a Navy, she does it for her own export trade. Her existence would be in danger if she did not keep open the main channels of her foreign trade. The destruction of that trade would mean no great hardship to parts of the Empire like India, which may, therefore, be expected to hear such a misfortune with the philosophic fortitude characteristic of complete fatalism. The talk of political gratitude may sound excellent in elementary copy-books, but has no place in discussions of hard economic facts like the present. The Commission forget that the retort of *tu quoque* is so easy and handy in the Indo-British relations, that it would have been much the wisest course to give a very wide berth to such considerations. Having mentioned them, the Commission must face the reply that if Britain maintains a navy—which, however, has never protected in actual history the trade that exclusively benefited India or Indians,—India, in her turn, maintains an army, far in excess of her financial strength or military needs, and which has more than once been used outside India to fight in the battles of the United Kingdom, in the issue of which India had not the remotest interest. Indian soldiers fought in the British quarrel in China and Soudan, in France and South Africa; and the only return India has got is that the treatment of Indians in the present British possessions, won for the Empire by aid of Indian blood and Indian treasure, is much worse than it ever had been in the days of the foreigner they have helped to displace. These are bitter, unforgettable memories; and we would not have needlesssly revived them; but the arguments of the Commission leave no option to a critical examiner of their contentions.

One more point and the case against Imperial Preference would be closed. The suggestion for the policy in general arises from two mutually inconsistent stand-points. On the one hand is the desire to adopt Imperial Preference with a view to a better co-ordination of the resources of the whole Empire, their more effective mobilisation, more thorough exploitation in the collective benefit of the Empire. Under this ideal, the Policy of Preference would have to be uniform in all the Dominions and Dependencies. On the other hand is the earlier ideal of a greater mutual acquaintance and consequently better mutual understanding between the different parts of the Empire, by means of a fuller commerce between them, without prejudicing the immediate national interests of each part. These two are obviously inconsistent. To organise a single uniform policy of Imperial Preference for all the parts of the Empire, which are *inter se* at different stages of economic developments, with different and mutually hostile economic needs, would involve such a surrender of their rights of self-government that no Dominion could be possibly pursuaded to endorse or adopt it.' Under the pressing danger of a catastrophe, like the one threatened by the last European struggle, it may quite possibly happen that some sort of temporary arrangement of this kind may be evolved. But we are not here concerned with temporary expedients, but with permanent, co-ordinated, scientifically planned systems of Imperial policy, and we consider such a uniform system of Imperial preference to be absolutely outside the bounds of practical politics for the next half-century at least. Considering the question of Imperial Preference only as a result of voluntary mutual concessions, we may as well leave the matter to be decided by the Indian Legislature after duly weighing the arguments for and against the system. We would only add that such a discussion would provide a proper opportunity to consider schemes or measures of retaliation against those British colonies that are guilty of the most hostile treatment to Indians under their jurisdiction. It is perfectly legitimate for India to promise that no country, desirous of special treatment in her Customs Schedules, shall be suffered, if India can help it by any means at her command, to offer any indignities or special ill-treatment to India's own nationals. Imperial Preference must be made the natural counterpart of equal civic rights in the Empire, and full freedom of settlement and employment for any citizen of the Empire in any part of the Empire. Failing the equality of Imperial advantages, there can be no question of Imperial Preferences.

XCVa THE MINORITY SUGGESTIONS.

The central proposition of the Report recommends " in the best interests of India the adoption of a policy of protection to be applied with discrimination along the lines indicated in this Report ". The Minority have agreed that protection should be applied with discrimination,—who would object?,—but consider that the conditions laid down in Chapter VII are too stringent, and that any discrimination necessary in the interests of the consumers must be determined by the Government of India and the Indian Legislature. Here is an excellent opportunity for an effective dissent lost. The platitude could stand unchallenged if by " discriminating protection " was meant such a wise choice of industry as would ensure the most rapid development of the country with the least effort. The Minority however, have fallen into the trap carefully prepared for them by the wording of the Report, and made their own suggestion of an intense policy of industrialisation ridiculous by leaving the discrimination to the Government and the Legislature. This policy is so obvious and axiomatic that we wonder what possible additional weight the Minority consider their Minute has derived by this rider to the general proposition. There is and can be no real opposition of interests between the producers and consumers in this country, since there is no considerable class of idle rich men who are only drones or consumers. Conscience makes cowards of us all, the poet says; and here, perhaps, is an illustration that the representatives of the capitalist industrial class probably felt that an uncompromising attitude in favour of unrelenting protection to the Indian industries taken up by them must be liable to misconstruction. We grant the possibility, but we consider that the more manly and honest course would have been for them to record their own honest convictions, leaving it to the bodies they themselves have mentioned to determine how far their recommendations should be adopted. The same conclusion is inevitable when one considers the basic idea in accordance with which the Commission have proceeded to give effect to their general principle. "The necessity of continuing to derive a high revenue from tariff, which is apparent from a consideration of the financial situation, is also held to lead inevitably towards protection." Here is another opportunity for a vigorous dissent on both the principle as well as the practicability of the suggestion. The ideals of revenue tariff and those of a protective tariff are so incompatible that this single idea in the Report is sufficient to condemn it. The utter futility of this combination has already been exposed in detail. But it was, perhaps, impossible to expect a minority of capitalists to take any other line but that of taxing the poor in customs duties as well as in excise. The Minority have, it must be admitted, opposed the general principle of excise revenue except from objectionable consumption. But they have not realised, or rather they have wilfully blinded themselves to, the cardinal error of the suggestion of their colleagues that there is no more room for adding to the direct taxes on income in India, and that, therefore, implicitly if not expressly, should Government need additional revenue, they must obtain it from the customs. The conclusion is thus inevitable that the new tariff must be a combination of revenue and protective duties on—the most absurd of all absurdities—one and the same set of articles. The Minority, however, could not or would not avail themselves of this fundamental error in the position of their colleagues, simply because they also do not wish that the profits of the industry to the capitalist should be diminished. Tariff protection, therefore, could not possibly be as effective as it might be made, so long as the Government depend upon the customs revenue for a very considerable portion of their sinews of war, and must, accordingly, desire to attract rather than discourage foreign imports. We do not, of course, suggest that absolutely no revenue would accrue to the State from a rigidly Protectionist tariff. The history of Germany, America and Japan would suffice to assure Government that even under the most rigid system of tariff protection to India's national industries, some trade will perforce persist, and some revenue would, accordingly, be derived in spite of a non-revenue tariff, framed exclusively for protecting the local industries. The last Tariff law in the United States is claimed to have been not utterly unaware of the revenue possibilities of even such a high protection. Had the Minority been aware of the industrial and fiscal history of contemporary peoples, they would not have perhaps felt the hesitation they obviously do in attacking the main weakness of their confrères of the Majority. As it is, the Minute of Dissent as well as the main Report proceeds on a fundamentally false basis for the construction of a new scientific tariff for India, in which the interests of Indian industry will perhaps be the last to be considered, after due attention has been paid to the financial needs of an extravagant Government, yet unrepentant in the matter of their unrestricted expenditure, not to mention the bogey of the consumers' interests demanding that " protection " should be as low as possible. What kind of " protection " this will be we frankly confess we cannot imagine.

We need not discuss the detailed recommendations of this Report beyond calling attention to the fact that both sides of the Commission have emphatically and unreservedly condemned the Indian Cotton Excise Duty, which, it is to be hoped, will now be interred without any loss of time. The Minority have done well in pointing out the absurdity of unrestricted freedom to the foreign capitalist for investment and exploitation. But even they have not realised the significance of such outstanding measures, and they have failed to appreciate the importance of reserving the mineral resources of the country to be exploited only by its own people. If democratic and self-governing Australia could find it necessary to prohibit aliens in 1922 from holding any share in a concern formed to work a mineral concession in Australia; if the most powerful nation in the world—the U. S. A.—should feel it necessary to revive the old navigation laws for building up its mercantile marine, we see no reason why India, becoming a Protectionist country, should not follow such laudable examples. The mere provision of Indian domicile, rupee capital, and a proportion of Indian Directors would not help the country against the dangers of unrestricted admission of foreign capital and capitalists, especially in mineral and other industries of vital importance. On the question of Imperial Preference, the Commission seem to be fully aware of the dangers to India of such a policy, though, as might have been expected, the Majority have followed their general policy of attempting to please all sides by a great parade of "sweet reasonableness," which we very much fear will be mistaken for fatuity, while the Minority must be specially congratulated on having adroitly imported political considerations into this apparently purely econmic question. They maintain that " India cannot accept the principle of Imperial Preference until she has attained responsible Government and is able to regulate her fiscal policy by the vote of a wholly elected legislature." If the concession of Imprial Preference—admitted without violence to the protection granted to Indian industry—is made a condition precedent for the grant of complete Swaraj we can find no cause to cavil at the astuteness of the authors of this suggestion. We are not quite convinced of the wisdom or feasibility of vesting the power of granting, varying or withdrawing Imperial Preference exclusively in the non-official members of the present Legislature; but even so we must admire the master stroke of policy which would hoist the imperialist bureaucracy with their own petard, and show the link between present-day politics and economics which is so often ignored.

23 JAN 19

Chapter XIII.

PRINCIPLES AND METHODS OF SCIENTIFIC PROTECTION IN INDIA.

XCVI. RE-CAPITULATION OF THE OBJECTS OF A PROTECTIONIST POLICY IN INDIA.

In order to lay down clearly a scientific principle that ought to govern the protectionist regime in India, we must define, in the clearest possible terms, the goal to be aimed at. * It is not merely because in the absence of a clearly defined goal, the measures adopted may prove abortive; but such measures may from the beginning be unsuitable, inasmuch as the aim they are intended to attain is not clearly formulated. In the course of this work the goal of India and modern industrialism as envisaged by the present writer, has been vindicated more than once; and would bear repetition here if only to bring out clearly the whole relation between the aims and the means. Intensive State-help to industries on a modern scale in India may be afforded with a view either (a) to enable the products of Indian manufactures to obtain full command of this local Indian market, instead of having it supplied by corresponding wares imported from abroad, though manufactured, in those foreign countries from the raw materials supplied by india herself; or (b) to so develop and work up all the available indigenous resources in men and materials as to leave no portion of our raw material to be exported for being manufactured abroad. The difference between these two alternatives is very considerable. In the former case, the industrial ambition of India is modest enough not to offend the susceptibilities of any sister countries and legitimate enough not to arouse any reasonable hostility amongst possible competitors. It may be that the modesty of such a goal will still leave a considerable amount of raw materials to be drained away by way of exports for manufactures abroad; and thus assist such foreign manufacturing countries by means of wares manufactured out of the raw materials supplied by this country to carry on their commercial rivalries in markets relatively undeveloped. I cannot, however, consider this as either a commendable, or even a condonable feature of modern civilization. At the risk of seeming to lack in adequate patriotic feeling, I hold that the first alternative would be quite sufficient for this country and all that she can legitimately and reasonably aspire to; and that the second, though likely to contribute more, both qualitatively and quantitatively, to the national wealth, is nevertheless frought with the possibilities of complications that we have best avoided.

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* The goal as defined by the Indian Fiscal Commission, both in the Majority and Minority Reports, (para 54 Majority Report and paras 4 to 6 Minority Report) is lacking in clearness and precision.

That other countries are even now and, have been for sometime past, engaged in a policy of internecine commercial warfare by an intense nationalism manifested in their economic policy is not quite reason enough for us to perpetuate the vicious circle.

There is, however, one exception which, I think, may fairly be made. Whenever merely producing enough to supply the local demand would leave a very considerable demand of the outside world unsatisfied, and whenever the outside world has no alternative source of supply, it would be legitimate as well as obligatory upon this country so to push forward and develop its capacity as not merely to meet her own needs but also the world demand. By this, I mean that all those products which are absolute or practical monopolies of this country should be developed to the extent, when not only the whole of the local demand would be met by the local manufacture, but also the foreign demand. * In other words, if, at present, India does not engage into active commercial rivalry in regard to such products, owing either because she does not manufacture them at all to their finished stage, or manufactures only a part of the raw material, the policy of constant state-aid to industrial developments, that I have in view, would require that the whole of the raw material be manufactured in this country. The risk, if any, of injuring the vested interests of other people is negligible; in any case one which India must incur under any circumstances if she has the least industrial ambition at all.

XCVII. TWO EXCEPTIONS.

To the goal thus formulated and the exceptions laid down, two limiting conditions may also be appended, with a view to make the measures, to be adopted, as effective as possible. That active state-aid for the development of Indian industries should not, however, be perverted to benefit the non-Indian entrepreneur at the cost of the Indian consumer, it is necessary that the industrial development be accomplished, as far as possible, by indegenous capital. Attempts must, therefore, be made to attract from every likely corner capital which is known or suspected to be hoarded in this country or employed in non-productive enterprise. Credit and banking facilities conducing to sound industrial finance would appear to be a prime necessity of industrial development. And where local capital is either insufficient or unwilling to be invested, the admission of foreign capital, though necessary, must be safeguarded against by measures which would limit the rewards of such capital only to a stipulated rate of interest, and no more. This condition is almost impossible to realise unless and until the principle of collective enterprise in all new and unfamiliar industrial ventures is accepted. In a previous chapter of this work, the point has already been discussed at some length; and the conclusion is repeated here to indicate its importance.

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* Jute, shellac and oil-seeds are already admitted to be the absolute or practical monopolies of India. I do not see why the monopoly should remain only in regard to raw material, and why the finished products of the same should not take the place of raw material in the export schedule of India.

Besides the limiting factor of local capital being preferentially required for industrial purposes, the other condition, also of a limiting nature,—and one already discussed,—relates to the need of confining one nation's industrial development within limits that would not infringe upon the similar and equal rights of other countries. International commerce, in my view, is not a representation on a larger scale of the animal instinct in man, whereby the stronger would prey upon the weaker. Hence India cannot and must not be made to develop industries only with a view to fasten her grip upon her less developed neighbours, and thereby to arrest or prevent an equal development of such people. We have already referred to the traffic in deleterious drugs and demoralising commodities, like that in slaves, as deserving to be restricted in the interests of international morality. We may here illustrate the same point by a somewhat novel example. It is a sore point of imperial politics in the British Empire, that the British Imperial citizenship does not confer equal rights upon the different members of the Empire in the various component parts of the Empire. The Indian in South Africa is a pariah. It seems against international morality, and even against imperialistic sentiment, that even such nominal unity, as equality of citizenship in all parts of the Empire, be not enforced. But the Self-governing Dominions of the British Empire, in all their restrictive legislation against Asiatic or Indian Immigration, have always put forward the plea that the relatively lower standard of life of the Indian worker will tend to undermine, if admitted freely, the comparatively higher standard of living, which has been built up by so much struggle and sacrifice in the individual colonies concerned. I am not concerned here with the political merits of this question.* I am not even concerned with the truth or otherwise of the specific economic plea and its basis. Whether or not Canada, Africa and Australia are politically or economically justified in their restrictive legislation re: immigration of Indian workers, the fact I wish to stress here, as an illustration of the necessary restraint that national industrialism must submit to, is that the export of cheap labour must be looked upon in a way analogous to the traffic in slaves. In every country a primary obligation must be recognised of each individual citizen's right to exist, and right to a minimum standard of human comfort. If the resources of each country are not equal to guaranteeing such a right, an international agreement will have to be developed for some sort of a redistribution of population. But for such international agreement to be both just and economic, it is necessary that emigration from one part to another cannot be left merely to *ad hoc* impulsive and individual vagaries. No emigration will succeed, and be human in its inception and execution, without an intelligent international concert directing and superintending it. Before, however, a plea can be made for international action by way of a solution of the population of many old and congested countries, honest effort must be made by each country to find employment and guarantee existence to every citizen, male and female, on a decent minimum standard of comfort. Hardly any country in the world has yet adopted the policy of national minimum, or recognised the elementary human right of guaranteed existence. But that makes the obligation upon a country, newly intent to create modern industrialism, doubly emphatic that every possible avenue of domestic employment for the country's own population should be first tried and exhausted. An idle rich class may be a nuisance; but a compulsorily pauper class is a national crime. Intensive protectionism, therefore, in a country like India, finds its strongest support in the necessity to obtain employment in industry for that large surplus of population which agriculture is unable to support. No one can yet say that the possibility of modern industry absorbing surplus population has yet been explored in this country. And while that chance remains open, it will not be amiss for India to regard the problem of internal emigration as really one more argument for a policy of intensive development of her own industry. Such an outlook will not preclude us from an effective rejoinder to those members of the British Empire who would restrict Indian immigration into their Dominions. But the retaliation, which we may then adopt, must be considered more in the light of a political expedient, asserting the equality of Imperial citizenship, rather than an economic justification for what threatens to be a grave problem. *

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* Emigration, as a solution of the population problem, has been discussed *ad nauseam* since the days of Malthus. But no one has yet been able to find in it anything more than a merely temporary relief. For India, cp. *The Population Problem in India* by P. K. Wattal, where the effects of internal as well as foreign emigration have been discussed.

XCVIII. THE NATURE OF PROTECTION.

Premising then that protection be given to indigenous industry, wherever needed, in order to obtain the goal formulated above, we must next require of a scientific system of protectionism that it should entail the least possible sacrifice upon classes not immediately concerned as producers. The supposed antagonism between producers and consumers is, indeed, to a large extent imaginary, particularly in a country like India, where an idle rich class of mere consumers, like the drones in a bee-hive, practically does not

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* I am not at all certain that this would mean any effective solution for the very rapid increase in population which the last five census in India have disclosed. In Europe, the view seems to have now become fashionable that the population of each age is sufficient for the resources of that age; but a detailed study of Indian conditions does not seem to justify such optimism in this country, whatever its justification may be under European or American conditions. As far as I can see the possibilities of industry in India to-day, it is not likely to absorb more than 15 % additional of the population, which would still leave something like 60 % at least dependent upon agriculture That may not seem to be an excessive proportion until we remember the frightfully dismembered condition of agricultural land in India, which makes cultivation most uneconomic and unproductive. If ever a policy of National Minimum comes to be adopted in India, and the institution of equal inheritance is maintained, the proportions of population supported by agriculture and industry would have to be reduced to 40 % and 60 % respectively. And even then further increase in population would be left unprovided. Everything considered, I think, we are rapidly approaching, if we have not already passed the point, when organised effort be made to restrict the growth of population in this country.

exist. And the divergence of interest under a protectionist regime between agriculture and industry is also largely discountable, in so far as the promotion of local industries would, if anything, intensify the demand for agricultural produce whether as food-stuffs or as raw materials.* But in so far as protection necessarily entails a sacrifice, the scientific protectionist, as well as the practical statesman, will do well so to formulate his measure so as to minimise in advance the ascertained or probable loss. Thus, before trying heavy import duties, for example, an experiment may be made with special aid to selected industries in the shape of subsidy or bounty, just for the development of these individual industries. And even when tariff manipulations of the customs schedules remain the only means of aiding domestic industry, the graduation of duty must be so carried out as to confine the burden within the lowest possible limit. Discrimination between necessary and luxurious goods may be made in the tariff schedule; but the importance of such a discrimination would be more for purposes of revenue than for purely protectionist purposes. And, above all, protection, when given, to be scientific, must be regarded and treated as a temporary measure, to be abandoned the moment its utility is served.

XCIX. THE SCOPE OF PROTECTIONIST DUTY.

Finally, in cases when the only form of granting protection to indigenous industry is to be found in tariff manipulations, the extent to which such duties may be charged must be sought in the comparative difference in cost of production between the domestic goods and their imported rivals. The amount of protection can only be determined by what measures the disadvantage of local industries in comparison to foreign ones. Scientific protection in practice, therefore, must necessarily investigate into the condition of production at home as well as abroad in all those cases where it is decided to grant protection. It may be that initially the difference in competitive cost of production has not been well enough determined; it may be that the actual percentage of benefit conceded does not neutralise the real disadvantage under which the domestic industries labour. In such a case the extent of protection will have to be increased gradually, till it becomes effective and obviates foreign competition. At the same time, any tendency, restricting the freedom of internal competition, must be guarded against, and provided for so long as the principle of private enterprise is upheld.

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* Both sections of the Fiscal Commission seem to have radically misunderstood the economic situation in India. The Majority have expressly adopted this antagonism between the different classes of the Indian people and formulated their recommendation largely, if not wholly, under the strain of the supposed antagonism. The Minority have tacitly accepted this difficulty, only consoling themselves with the remark: "We can, therefore, confidently leave the interests of the consumers in the hands of the non-official members of the Indian legislature, who are representatives of large and varied interests." (Minority Report, page 178, para 6.)

C. LOCAL, IMPERIAL, AND INTERNATIONAL CONSIDERATIONS IN INDIAN TARIFF-MAKING.

So long as the object in view is the development of a given industry, and the means to achieve it, is, on investigation, found to lie only in a manipulation of the tariff, no other consideration but the success of the industry must be suffered to influence the policy of India ; and therefore, no other measure but the actual difference in the competitive cost of production between India and her principal foreign rivals can be recognised. This does not necessarily mean that we ignore or sacrifice all Imperial considerations at the altar of Indian industrialism. Sane nationalism is not a Moloch, but rather a sort of a geni attending upon Alladin's lamp. It does not so much require sacrifices, as seems to be anxious to render services. In carrying out those services, local, imperial, as well as international considerations will all be given their due share. And subject to the consideration that in all instances India's interests must be regarded as paramount, and that the formulated goal of development must not be endangered, the modifying circumstances have all been reviewed and given their due already in these pages. In deference to the demands of international morality, we have conceded the advisability of restricting or prohibiting certain branches of trade; and, by implication, in the corresponding industries. The demands of British Imperialism are not easy to reconcile, and less easy to reconise, perhaps with the most modest demands of Indian nationalism. But in so far as the Empire as an organisation persists, in so far as India of her own free choice elects to remain a member of that organisation; with, of course, an equal voice in the determination of the Imperial policy as a whole, it may be conceded that the Indian fiscal system would provide for contingencies, when the Imperial interests would automatically be given precedence over the immediately Indian interests.* And, as regards local interests, we have already examined the validity of the contention relating to supposed hostility of interests between producers and consumers, between agriculture and industry. To a large extent, this antagonism is hypothetic; but in so far as it is real and unavoidable, provision may, and can, be made, to reconcile the conflicting interests by the restriction of protective duties to only a given period with a regressive effect in the event of the industry developing; by attempting devices of special encouragement to specific industries of admitted possibilities besides tariff manipulations; by encouraging novel principles of organising and developing industries in contradistinction to the principle of private enterprise and personal gain, so as to distribute as extensively as possible the net benefit from the development of such industries. Altogether, then, we may conclude, that though there may be some impediments and some conflict of interests in the path of scientific protectionism in India, it would not be difficult to remove those impediments and reconcile those interests, if only we are honestly determined, and really want to reorganise our fiscal policy with a view to developing new and old industries in this country.

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* This obviously relates to war time, measures, wherein, if the British Empire as a political organisation lasts, effect may have to be given to re-trictive trade regulation by India in Imperial interests. In normal times, however, I cannot, for the moment, think of any specific instance in which the Indian fiscal system could introduce imperial preference consistently with Indian protection. In view of the character and direction of the present trade of India, as analysed in the preceding chapters of this work, the most clear assertion of Indian protectionism will have to be made against Britain and the British Dominions. If, therefore, preference is at all to be given, if only as a sop to a needless and injurious sentiment, it can only take the form of a discrimination against non-British customers of India, over and above a common line of minimum protection effected and maintained as the indispensable level of protection to Indian industries. Such a policy, in my opinion, would be more injurious to India than beneficial to the Empire. For, while warning off the customers of India by this special discrimination, it will still refuse, — and must refuse — to allow imperial sentiment undermining effect against Indian prosperity. The sentiment of the late Mr. Gokhale, therefore, against imperial preference in general, though pronounced some 13 years ago, still remains, in my judgment, as sound as it then was. We would much rather be free-traders than preferential imperialists.

Chapter. XIV.

A TENTATIVE SCHEME OF PROTECTIVE CUSTOMS DUTIES FOR INDIA.

To give precision to the arguments in the previous chapter of this section, I have herewith appended, in the form of a draft bill, what I consider to be the most suitable tariff legislation for India. Its general purpose is contained in the Preamble, while the actual duties chargeable are to be found in the Schedule annexed, subject to such variation as may be required under the terms of the Act. The specific charges are, of course, guess work, until the proposed Tariff Board supplies more exact information as to the difference in competitive costs.

PREAMBLE. Whereas it is found necessary to build up modern industries in India on a scale commensurate with the resources and the market available in this country; and

Whereas it is not possible to develop new industries, and to extend the industries already established, to the full capacity of the local resources and the local market in face of the strong competition of the foreign goods now imported in this country; and

Whereas, in the absence of adequately developed industries, not only are the Indian people deprived of that variety in employment which is the best insurance against the commonest scourge of Indian economic life, viz., a periodic shortage of crops; but also suffer from a steady insidious drain of the raw-material and food-stuffs, and evolve an economic organisation in which they have helplessly to submit to a double drain in the shape of the loss of industrial power and the profits of the foreign manufacturer of the goods they have to import in this country, and all that host of middlemen who are engaged in bringing the goods to, and disposing of them to the final consumer in India; and

Whereas the industrial backwardness of India is politically even more injurious than it is economically costly in as much as she is prevented, in moments of real stress and strain, from running to the rescue of the British Empire or supplying her own immediate needs in the matter of necessaries of life and industries, and the munitions of war;

It is hereby enacted as follows:

I. This Act shall be called the Indian Customs Duties Consolidation Act, and shall come into effect from the 1st of April 1924.

II. Unless otherwise mentioned in the body of this Act, or unless it is inconsistent with the terms of this Act, all previous legislation defining, imposing or regulating customs duties by sea or land upon the goods and material imported into or exported from India shall be repealed.

III. This Act shall apply to the whole of British India and the States in India in alliance with the British Government of India, notwithstanding any provision in the several treaties with the particular States that may seem to be inconsistent with the terms of this Act.

IV. For purposes of Customs Duties regulation the whole of the continent of India shall be regarded as a single country; and, besides the duties imposed by or in accordance with this Act to be collected at the frontiers of India with foreign powers or countries, there shall be no other Customs Duties within the country itself as between its different provinces, or between the provinces and the Indian Native States.

V. Customs Duties shall be charged at the rate or scale mentioned against each of the articles enumerated specifically in the Schedule to this Act, and subject to the provision of the next following four sections.

VI. Articles of raw materials, imported into this country for purposes of being further worked up to a stage suitable for immediate use, shall be entitled to a refund, from any tax, provided it is proved to the satisfaction of the Tariff Board that an article claimed to be raw-material of industry is really intended for being, and is in fact, further worked up in this country, and provided the Tariff Board grants a certificate for the purpose. For purposes of this Act parts of a motor vehicle or a ship to be built up in India shall be regarded as raw-material, including engines, and machinery of all sorts.

VII. Customs Duties shall be charged in accordance with the provisions of this Act in the first instance on all articles imported into India; but articles imported into this country for purposes of re-export only shall be refunded on re-export all the duties charged thereon. To facilitate and expedite the grant of such refunds on *bonafide* re-exports, all such goods shall be stored in bonded warehouses established at every port or frontier station for the purpose by the appropriate authority. Any portion of the goods thus stored or deposited in bonded warehouses, if not re-exported, shall not be entitled to the refund hereby authorised.

VIII. All articles of imports not specifically enumerated in the Schedule referred to in section V of this Act nor covered by the provisions of any other section or sections of this Act; shall be liable on import to a revenue duty of 10 per cent. *ad valorem.*

IX. All articles of export, unless otherwise treated of in the Schedule aforesaid, shall be free from any customs duty, provided that in regard to articles of food like wheat, rice, pulses, sugar etc. when the prices in India exceed by 50 per cent. the average of the last five years, the Tariff Board shall consider their case, and submit proposals for an export duty on these articles or any of them with a view to conserve resources for local benefit. Such an export duty shall in no case exceed 20 per cent. of the price in India of the articles taxed at the time of the proposal; and shall in no case remain in effect longer than a year, but may be re-imposed by the Legislature for another such period.

X. The Customs Duties, sanctioned in the Schedule hereto annexed, are, in the case of all articles calculated to compete with corresponding articles of Indian make or origin, equal to the full difference between the competitive costs of production in representative establishments in this country and in the strongest of its foreign rivals, as considered and recommended by the Tariff Board.

XI. In the case of all other articles, which, though capable of being produced in this country, are not yet produced in this country, and which are nevertheless of such importance for national security or development as to be a veritable source of danger if this country depends for their supply upon foreign non-Indian sources, it shall be incumbent upon the Government of India, by itself, or by any of the provincial governments considered to be eminently suitable for the task, forthwith to undertake the industries required for the production of these articles.

XII. In the event of the Government of India, or any of the Provincial governments, not being able to undertake any of the industries referred to in the next preceding section for financial or analogous reasons of overriding national importance, the Government of India shall take immediate steps to subsidise private enterprise for the purpose; the subsidy to take the form recommended by the Tariff Board and approved of by the Legislature; and to be given in return for definite rights of control and supervision by the Government of India.

XIII. The subsidies referred to in the next preceding section, by whatever name described, shall, in so far as they involve a financial charge upon the Government of India, be a first charge upon the Customs Revenue of the Government of India; but shall not be limited only by the available surplus of the said customs revenues.

XIV. The subsidies, or bounties, aforesaid, or any other species of direct financial aid from the public exchequer, to any privately owned industry, shall be allowed only to those concerns, the proprietors and directors of which are Indians to the extent of at least ¾ of their number, and the chief controlling and managing authority of which is entirely Indian.

XV. No private industrial enterprise, whether by individual entrepreneurs, partnership firms, or limited liability joint-stock concerns, concerned with the exploitation of the mineral resources of India, or the production of any material necessary for the national security of this country, shall be permitted unless its capital, to the extent at least of ¾ of the authorised and subscribed amount, is in Indian hands, and its directors and managers are entirely Indian, provided that this section shall not affect any capital raised by way of debentures by Indian concerns outside India.

XVI. Besides the industries covered by the operation of sections XIV and XV of this Act, any other industry benefiting from the protectionist regime hereby established shall be deprived partly or wholly of the measures of protection afforded to it under the provisions of this Act, upon the recommendation of the Tariff Board, by means of a counter-vailing excise duty upon its products, if the promoters or proprietors, directors or managers of the industry, make, in the conduct and management of the industry, any undue and unfair discrimination against Indian interests or their Indian employe's ; or if the head office or controlling centre of the enterprise is outside India, whether or not the concern is registered under the Indian law ; or if the capital for the enterprise is found to the extent of more than one-half from non-Indian sources and remains in non-Indian hands, except in so far as a part of the capital may have been, raised by mortgage upon debenture security.

XVII. Notwithstanding anything that may be contained in the Indian Companies Act or any other law for, the time being in force in British India for the organisation of business concerns in this country, no partnership or joint-stock company with a limited liability shall be allowed to trade in this country unless it is registered in this country ; and no such registration shall be permitted unless the formalities enjoined by the Indian laws on the subject are fulfilled, and unless a certificate from the Tariff Board is produced before the registering authority to the effect that all the provisions of the present Act are fulfilled, and that the organisation would in no way offend against any of the provisions or objects of this Act.

XVIII. No part or share in the capital of a partnership or joint-stock company with a limited liability registered in this country shall be transferable to a non-Indian, except on a written permission to that effect being obtained from the Tariff Board. No such permission shall ordinarily be granted in the case of industries covered by sections XIV and XV of the present Act; and no such permission shall be granted in any other case if the proposed transfer would in any way violate the provisions of this Act.

XIX. In order to facilitate the carrying into effect of the provisions of this Act, a Tariff Board shall be established consisting of a President, and two members, who shall, in all respects of appointment, removal, pay, pensions and prestige, be placed on the same footing as the Chief Justice and Puisne Judge of a High Court of Judicature.

XX. It shall be the duty of the Tariff Board

(a) To investigate into the commercial possibilities or national importance of a given industry seeking or alleged to need protection;

(b) To determine, after full examination of all the interests concerned, whether or not any protection need at all be granted, and, if so, in what precise form, to what extent, and for what length of period;

(c) To make recommendations to the Legislature for granting, withdrawing, altering, or amending protection to any industry or any enterprise;

(d) To superintend the movement of foreign capital in India with a view to ensure proper enforcement of the provisions of this Act in this regard, and to grant certificates wherever required under the provisions of this Act;

(e) To grant certificates, wherever required under the provisions of this Act, in all cases in which a refund of the duty charged in the first instance is permissible, provided that before so doing the Board shall satisfy itself of the provisions of this Act in all respects having been satisfied,

(f) To investigate the relations between the rates of duty on raw-materials, or partly finished products, and finished products; to make recommendations for adjustments in these rates; and to suggest solutions for conflicts of interest between different industries;

(g) To inquire into allegations that dumping is taking place to the detriment of any Indian industry, or that any Indian industry is being injured by competition, resulting from the depreciated exchange of any foreign country, or from export bounties, and to make recommendations for any action necessary;

(h) To report on what commodities revenue export duties can safely be levied and at what rates;

(i) To consider the effects of *ad valorem* and specific duties and tariff valuations on various articles, and to make recommendations for any changes that may be desirable;

(j) To report on proposals for preferential agreement with any of the British Dominions or Colonies;

(k) To consider to which articles preferential rates of import duty in favour of the United Kingdom might be extended, and what the preferential rates should be;

(l) To investigate questions in connection with the treatment of Indian products by foreign countries and the advisability of taking any retaliatory action in special cases;

(m) To investigate any complaints regarding combinanations of manufactures to the detriment of the Indian consumer and to make recommendations for any necessary action;

(n) To study the tariff systems of other countries;

(o) To watch the effect of protective duties or other measures of assistance on industries; to review periodically the results of such protection on each industry, and to make recommendations when necessary for the modification or withdrawal of protection;

(p) And generally to advise upon all those matters which relate to the industrial and commercial development of the country, as well as to the economic well-being of the people under the provisions of this Act, which may be referred to it for advice by the Legislative Assembly.

XXI. All proceedings of the Tariff Board shall ordinarily be public as in a Court of Law, provided that information, which, in the opinion of the Board, relates to trade secrets, may not be published, and may be placed before the Board *in camera.*

XXII. The President and members of the Tariff Board shall be appointed by the Governor-General in Council, subject to approval by the Legislative Assembly, from amongst notable Indians with judicial as well as industrial experience and good training in theoretical economics. The purpose of this section shall be deemed to be satisfied if one of the members, preferably the President, is a gentleman with judicial experience, another with commercial insight, and the third having good training in the science of economics.

XXIII. All the members of the Tariff Board shall be subject to the Government Service Regulations, with special reference to the receipt of bribes or indirect gratification as an inducement in the discharge of their duties. Particularly, no one of the three members of the Tariff Board shall be allowed to hold, without a full previous disclosure of the fact to his colleagues and to the Legislative Assembly, any share, right, title, interest in, or connection or influence with, any industrial or commercial concern operating in this country, and benefiting generally, or specifically, under the provisions of this Act, in his own name or in that of any member of his own family, for himself, or as trustee or guardian on behalf of others. Any such holding, connection or influence, arising from the holding, and undisclosed, shall be deemed to be a disqualification for the post, unless on disclosure the Legislative Assembly specially overlooks and condones it. Any dealings on or through the Stock Exchange or otherwise in the securities of any such concern after appointment on the Board shall be a disqualification alsolute and perpetual for a post on the Tariff Board.

XXIV. Ordinarily the Tariff Board shall not act except at the instance of the Legislative Assembly. But in cases of emergency, and particularly when the Legislative Assembly is not in session, the Governor-General in Council may refer a case to the Tariff Board, on a sufficient *prima facie* case having been presented to the above-named authority for inquiry. The interests concerned and demanding protection shall ordinarily submit a petition to the Legislative Assembly, through the President of that body, with a *prima facie* case for inquiry in the matter.

XXV. Notwithstanding anything contained in this Act, a rebate of 10 per cent. of the duties chargeable on the imported articles will be allowed to the importer, if the goods have been brought to India in ships owned by Indians to the extent at least of 75 per cent. of the total capital in the shipping concern owning the vessels, and registered in India; and a further rebate of another 10 per cent. of the total duties chargeable under this Act will be allowed if the ship that carried the goods has been built in India.

XXVI. The provisions of the next preceding section shall apply to the articles of export from India, *mutatis mutandis*, whenever articles of export are made liable to customs duties under the provisions of this Act.

XXVII. No goods of Indian origin shall be conveyed from port to port in Indian waters in the Indian continent except in vessels owned by an Indian shipping concern with at least ¾ of its capital being in Indian hands. The provisions of article XXV of this Act shall apply in this case only in connection with ships built in India.

XXVIII. Wherever the customs duty provided for in this Act is given in the terms of a percentage upon the values of the goods or articles taxed, the value to be the basis for charging the duty shall be an average of the three years' prices at the principal ports of India for the articles in question, provided that in cases of real hardship caused by such adventitious circumstances as violent fluctuations in exchange, proved to the satisfaction of the Tariff Board, a special concession may be granted by way of refund by a resolution of the Legislative Assembly, specially passed in that behalf.

XXIX. Subject to the all-important proviso that the amount of protection designed for and accorded to the Indian industries under this Act shall be regarded as an irreducible minimum while it lasts, the Governor-General in Council shall be free to negotiate with foreign states as well as British Dominions for special trade relations, and give effect to any treaties signed as the result of such negotiations, by means of special resolutions of the Governor-General in Council with the approval and concurrence of the Legislative Assembly.

XXX. No concessions shall be granted to the imports from any part of the world, whether included in the British Empire or not, which will have the effect of frustrating the objects of this Act or defeating any of its provisions.

XXXI. A special surcharge, not exceeding 50 per cent. *ad valorem*, may be levied by a special resolution of the Governor-General in Council passed in that behalf at the instance and with the concurrence of the Legislative Assembly, upon all goods imported from any parts of the world where Indians are treated with invidious discrimination, and debarred from all or any of the normal rights enjoyed in common by all foreigners resident in a country.

XXXII. Notwithstanding anything contained in the next preceding section, any other measure of specific retaliation, that may be deemed advisable and resolved upon, may be adopted by the Governor-General in Council against any part of the British Empire, which, in direct contravention of the spirit of the Empire, denies to Indians the rights of equal and common Imperial citizenship.

XXXIII. For the gradual reorganisation of the basis of industrial and commercial enterprise in India from a profit hunting private proprietorship to an equalising co-operative or collectivist undertaking, a special remission of 50 per cent shall be granted from any duty which a co-operative productive society, or collectivist productive enterprise may be liable to under the provisions of this Act.

XXXIV. With a view to minimise the burden of the Protective régime upon the consumers, it shall be specially incumbent upon the Tariff Board to watch the course of prices of the protected articles, and in any case where the price of a protected article seems to it to be in excess of what it should be, it shall recommend to the Legislative Assembly any measures of price control that it may deem necessary.

XXXV. The scale of duties prescribed in the schedule annexed hereto shall be in operation until a revision is recommended by the Tariff Board; and in no case shall a protective duty remain in force for a period longer than ten years, unless reimposed by the Legislature in the meanwhile.

XXXVI. The Cotton Excise Duties shall be and are hereby repealed.

XXXVII. Subject to the provisions of this Act, no Excise duty on any Indian produce or manufacture shall be levied, provided that the Excise now levied on intoxicating liquors, and drugs shall not be affected by this section.

XXXVIII. Notwithstanding anything contained in the next preceding section, the tobacco, grown or manufactured in India, may be liable to a tax, provided always that this tax is made a monopoly price, and that, in consequence, tobacco cultivation, manufacture and sale is made into an absolute public monopoly.

XXXIX. Notwithstanding anything in the next preceding section, and anything contained in the schedule hereunto annexed, the duty on foreign imported tobacco, whether raw or manufactured, shall, in no case, be framed so low as to be below the sale price of the article produced by the public monopoly.

XL. In the event of the manufacture and sale of intoxicating liquors being made a public monopoly at any time hereafter, the same treatment shall be applied to the foreign imported liquors, wines and potable spirits as is provided for in the case of foreign imported tobacco in the next preceding section, provided that nothing in the section contained shall prejudice the decision, if and when it is taken, in favour of a policy of complete prohibition of any deleterious or morally objectionable traffic, or traffic which has been agreed to be restricted by international conventions to which India is a party.

SCHEDULE OF CUSTOMS DUTIES.

DUTIES ON IMPORT.

No.	NAME OF ARTICLE.	Per.	Tariff Valuation.	Existing Duty.	Proposed Duty.	Remarks.
	I.—Articles wholly or mainly manufactured.					
	Apparel.					
1	Apparel, including drapery, boots and shoes, and military and other uniforms and accoutrements, but excluding uniforms and accoutrements exempted from duty (No. 2) and gold and silver thread (No. 39, and 41) and articles made of silk (No. 50) ..	......	*Ad valorem.*	15 per cent.	50 per cent.	To build up Indian industry, no article, and least of all stores purchased on public account, or to be used in public services, shall be treated as an exception to the fixed policy of the country. All Government Stores, uniforms for public service and accoutrements shall accordingly be charged the heaviest duties, the quicker to establish the corresponding industries in India.
2	Uniforms and accoutrements appertaining thereto, imported by a public servant for his personal use ...	......	......	Free.	50 ,,	
	Arms, Ammunition and Military Stores.					
3	Subject to the exemptions specified in No. 6, Arms, Ammunition and Military Stores, that is to say,—			Rs. a.		Arms of all kinds, ammunition and explosives imply industries of national importance. They must, therefore, in no case be suffered to be imported, except by the Government and every effort shall be made to build up in public workshops and under public control and ownership the ordnance and munitions making industries of all sorts. The free list must also accordingly be abolished in this regard.
	(1) Fire-arms other than pistols, including gas and air guns and rifles	Each.		15 0	150 ,,	
	(2) Barrels for the same, whether single or double...	,,	......	15 0 or 30 per cent. ad valorem which ever is higher.		
	(3) Pistols, including automatic pistols and revolvers.	,,	......	15 0		
	(4) Barrels for the same, whether single or double.	,,	......	15 0		
	(5) Main springs and magazine springs for fire-arms, including gas, guns and rifles	,,	......	5 0		
	(6) Gun stocks and breach blocks	,,	......	3 0		
	(7) Revolver cylinders, for each cartridge they will carry	,,	......	2 0		
	(8) Actions (including skeleton and waster) breach bolts and their heads, cocking pieces, and locks (for muzzle-loading arms)	,,	......	1 0		
	(9) Machines for making, loading or closing cartridges for rifled arms	,,	*Ad valorem.*	30 per cent.		
	(10) Machines for capping cartridges for rifled arms.	,,	,,	30 ,,		

No.	NAME OF ARTICLE.	Per	Tariff Valuation.	Existing Duty.	Proposed Duty	Remarks.
4	Gunpowder for cannons, rifles, guns, pistols and sporting purposes	......	*Ad valorem.*	30 per cent.	150 per cent.	
5	Subject to the exemptions specified in No. 6 all articles, other than those specified in entry No. 3, which are arms or parts of arms within the meaning of the Indian Arms Act, 1878 (excluding springs used for air-guns which are dutiable as hardware, under No. 20), all tools used for cleaning or putting together the same, all machines for making, loading, closing or capping cartridges for arms other than rifled arms and all other sorts of ammunition and military stores, and any articles which the Governor-General in Council may by notification in the Gazette of India declare to be "ammunition" or "military stores" for the purposes of this Act	......	"	30 "	150 "	
6	The following Arms, Ammunition and Military Stores:—	......	"	Free.	150 "	
	(a) Articles falling under the 5th, 6th, 8th, 9th or 10th item of No. 3 when they appertain to a fire arm falling under the 1st or 3rd item and are fitted into the same case with such fire arm:					
	(b) Arms forming part of the regular equipment of a commissioned or gazetted officer in His Majesty's Service entitled to wear diplomatic, military, naval, Royal Air Force or police uniform;				Free.	
	(c) A revolver and an automatic pistol and ammunition for such revolver and pistol upto a maximum of 100 rounds per revolver or pistol (i) when accompanying a commissioned officer of His Majesty's regular forces or of				"	

	the Indian Auxiliary Force or the Indian Territorial Force or a Gazetted Police Officer, or (ii) certified by the commandant of the corps to which such Officer belongs or in the case of an Officer not attached to any Corps, by the Officer Commanding the Station or District in which such Officer is serving, or in the case of a Police Officer by an Inspector-General or Commissioner of Police, to be imported by the Officer for the purpose of his equipment ;					
	(d) Swords for presentation as Army or Volunteer Prizes ;				”	
	(e) Arms, ammunition and Military Stores imported with the sanction of the Government of India for the use of any portion of the Military Forces of a State in India which may be maintained and organised for Imperial Service ;				150 per cent	
	(f) Morris tubes and patent ammunition imported by Officers Commanding British and Indian Regiments or Volunteer Corps for the instruction of their men ;			”	Free.	
7	Explosives, namely, blasting gunpowder, blasting gelatine, blasting dynamite, blasting roburite, blasting tonite, and all other sorts, including detonators and blasting fuse —	......	*Ad valorem.*	15 per cent.	150 ”	
	Carriages and Carts.					
8	Carriages and carts including tram cars; motor omnibuses, motor-lorries, motor-vans, jin rikshas, bath	......	*Ad valorem.*	15 per cent.	25 ”	On spare parts and accessories which could be and are in-

No.	NAME OF ARTICLE.	Per.	Tariff Valuation.	Existing Duty.	Proposed Duty.	Remarks.
	chairs, perambulators; trucks, wheel-barrows, and all other sorts of conveyances not otherwise specified, and such component parts and accessories thereof as are not also adopted for use as parts or accessories of motor-cars, motor-cycles, motor-scooters, bicycles, or tricycles (see No. 9.) *					tended to be put together into the finished articles built in India;
					30 per cent.	On spare parts and accessories to be sold separately to replace the worn out old ones;
					50 ,,	On cars carriages and carts fully manufactured, and ready for use on import.
9	Motor cars, motor-cycles, motor scooters, bicycles and tricycles and articles adopted for use as parts and accessories thereof: provided that such articles as, are ordinarily also used for purposes other than as parts and accessories of motor-vehicles included in this item or in No. 8 or of bicycles or tricycles shall be dutiable at the rate of duty specified for such articles. *	... ...	... ...	30 per cent.	50 ,,	For fully manufactured cars, cycles, scooters.
					30 ,,	On all parts and accessories not intended for use in building up in India a full car &c., but for sale separately.
					25 ,,	On spare parts and chassis used for building up a full car in India.
					20 ,,	On chassis and lorries used bona fide for purposes of industrial or commercial transport in India.
	Chemicals, Drugs and Medicines.					
10	Anti-plague serum			Free.	Free.	
11	Copperas, green			2½ per cent.		
	(1) Imported in bulk	cwt.		2½ ,,		
	(2) ,, otherwise	,,	5 0			
12	Opium and its alkaloids, and their derivatives ...	Seer of 80 tolas.	*Ad valorem.*	24 ,,	Free.	If certified to be used for medicinal purposes only.
13	Quinine and other alkaloids of cinchona			Free.		

14	Chemicals, Drugs and Medicines, all sorts, not otherwise specified	......	... ...		25 per cent.	Subject to a refund of 15 per cent. on a certificate being produced to show that the articles are needed for an industry in India, and as an integral process of that industry.
	Alkali, Indian (saji-khar)	cwt.	4 0	15 per cent.		
	Alum (lump)	„	12 0	15 „		
	Ammonium chloride	„				
	Muriate of Ammonia, crystaline	„	32 0	15 „		
	Salammoniac, sublimed	„	48 0	15 „		
	Other sorts, including compressed	„	44 0	15 „		
	Arsenic (China mansil)	„	85 0	15 „		
	„ other sorts	......	*Ad valorem.*	15 per cent		
	Bleaching powder	Cwt.	13 8	15 „		
	Carbide of calcium	„	20 0	15 „		
	Carbonate of Ammonia	„	40 0	15 „		
	Peppermint crystals	lbs.	19 0	15 „		
	Silicate of Soda	Cwt.	13 0	15 „		
	Soda ash including calcined natural soda and manufactured sesqui carbonates	„	7 0	15 „		
	Soda bicarbonate	„	10 8	15 „		
	Soda, caustic, solid	„	17 8	15 „		
	„ flake	„	25 0	15 „		
	„ powdered	„	26 0	15 „		
	Soda crystal in bulk	„	7 8	15 „		
	Sulphate of copper	„	34 0			
	Sulphur (brinstone) flowers	„	7 0	15 „		
	„ „ Roll	„	8 0	15 „		
	„ .. Rough	„	6 0	15 „		
	Trona or natural soda uncalcined	„	3 8	15 „		
	All other sorts of Chemical products and preparations not otherwise specified †	......	*Ad valorem.*	15 „		
	Aloe-wood	......	„	15 „		
	Asafoetida (hing)	cwt.	100 0	15 „		
	„ coarse (hingra)	„	35 0	15 „		

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* Under Government of India Notification No 1776, dated 1st April 1922, bicycles and tricycles and articles adapted for use as parts and accessories thereof are liable to duty at 15 per cent. provided that such articles are not ordinarily also used as parts and accessories of motor cars, motor cycles or motor scooters.

† Under Government of India Notification No. 1776, dated 1st April, area is exempt from the payment of import duty.

No.	NAME OF ARTICLE.	Per.	Tariff Valuation.	Existing Duty.	Proposed Duty	Remarks.
	Atary, Persian	......	*Ad valorem.*	15 „	25 per cent.	Subject to a refund of 15 per cent. on a certificate being produced to show that the articles are needed for an industry in India, and as an integral process of that Industry.
	Banslochan (bamboo camphor)	lb.	0 8	15 „		
	Columba root	cwt.	10 0	15 „		
	Camphor, refined, other than powder...	lb.	3 0	15 „		
	Camphor powder, from Japan	„	2 4	15 „		
	„ „ „ China including Hongkong ...	„	1 12	15 „		
	Cassia Lignea	cwt.	23 0	15 „		
	China root (chobchini) rough	cwt.	20 0	15 „		
	„ „ scraped	„	30 0	15 „		
	Cubebs	„	155 0	15 „		
	Galangal, China	„	12 0	15 „		
	Salep	„	350 0	15 „		
	Storax, liquid (rose mellos or salaras)	„	50 0	15 „		
	All other sorts of drugs, medicines and narcotics ...	......	*Ad valorem.*	15 „		
	Cutlery, Hardware, Implements and Instruments.					
15	The following agricultural implements, namely, winnowers, threshers, mowing and reaping machines, binding machines, elevators, seed-crushers, chaff-cutters, root-cutters, ensilage-cutters, horse and bullock gears; ploughs, cultivators, scarifiers, harrows, clod-crushers, seed-drills, hay-tedders, and rakes, also agricultural tractors; also component parts of these implements or tractors: provided that they can be readily fitted into their proper places in the implements or tractors for which they are imported, and that they cannot ordinarily be used for purposes unconnected with agriculture.	......	......	Free.	Free.	
16	Clocks and watches, and parts thereof	......	*Ad valorem*	30 per cent.	50 per cent.	On clocks and watches fully made up;

					30 per cent.	On spare parts and accessories or ditto.
17	Cutlery, excluding plated cutlery (see No. 19) ...	......	*Ad valorem.*	15 per cent.	15 per cent.	
18	The following Dairy appliances, namely, cream separators, milk sterilizing or pasteurising plant, milk aerating and cooling apparatus, churns, butter dryers and butter workers; also component parts to these appliances provided that they can be readily fitted into their proper places in the appliances for which they are imported and that they cannot ordinarily be used for other than dairy purposes ...	......	......	Free.	Free.	
19	Articles plated with gold and silver	......	*Ad valorem.*	30 per cent.	100 per cent.	This combines a protectionist with a luxury tax.
20	Hardware, iron mongery and tools, all sorts not otherwise specified	......	"	15 "	25 per cent.	
21	Instruments, apparatus, and appliances, imported by a passenger as part of his personal baggage and in actual use by him in the exercise of his profession or calling	......	*Ad valorem.*	Free.	Free.	
22	Musical Instruments	......	"	30 per cent.	50 per cent.	
23	Telegraphic instruments and apparatus, and parts thereof, imported by or under the orders of a railway company	......	......	10 per cent.	Free.	This includes also all wireless sets and broadcasting equipments.
24	Water-lifts, sugar-mills, oil-presses and parts thereof, when constructed so that they can be worked by manual or animal power	......	*Ad valorem*	Free.	Free.	
25	All other sorts of implements, instruments, apparatus and appliances, and parts thereof, not otherwise specified*	......	"	15 per cent.	25 per cent	Subject to a refund of the entire duty on production of a certificate from the Tariff

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* Under Government of India Notification No. 6362, dated the 5th November 1921, the following electrical instruments, apparatus and appliances are liable to duty at 2½ per cent. *ad valorem*:—

1. Switch boards imported complete or in parts, provided that the Collector of Customs is satisfied that they are for use on high pressure circuits.

   Explanation.—The expression "high pressure" has the meaning assigned to it in the Indian Electricity Rules, 1911.
2. Oil switches and oil circuit breakers.
3. Motor starters and controllers of all types with their accessories and resistances, provided that the Collector of Customs is satisfied that they are for use with machinery and not for motor vehicles, tram-cars, lifts or the like.

(Continued on p. 339.)

No.	NAME OF ARTICLE	Per	Tariff Valuation	Existing Duty	Proposed Duty	Remarks
	Dyes and Colours.					Board that the appliances and apparatus or instrument were intended for use for scientific or educational purposes.
26	Dyeing and Tanning Substances, all sorts, and paints and colours and painters' materials, all sorts ...					
	Alizarine dye, dry, not exceeding 40 per cent. ...	lb.	1 12	15 per cent.	25 per cent.	
	„ „ „ over 40 per cent but not exceeding 50 per cent	„	2 0	„	„	
	„ „ „ Over 50 per cent but not exceeding 60 per cent	„	2 4	„	„	
	„ „ „ Over 60 per cent but not exceeding 70 per cent	„	2 8	„	„	
	„ „ „ Over 70 per cent but not exceeding 80 per cent	„	2 12	„	„	
	„ „ „ Over 80 per cent...	„	3 4	„	„	
	„ „ Moist, not exceeding 10 per cent ...	„	0 6	„	„	
	„ „ Moist, over 10 per cent, and not exceeding 16 per cent	„	0 8	„	„	
	„ „ Moist, over 16 per cent and not exceeding 20 per cent	„	0 10	„	„	
	„ „ Moist exceeding 20 per cent	„	1 8	„	„	
	Aniline, Dye, moist	„	2 4	„	„	
	„ Dyes, black, of sulphur series	„	1 0	„	„	
	„ Congo Red	„	1 4	„	„	
	All other aniline dyes, dry	„	2 6	„	„	
	Aniline Salts	......	*Ad valorem.*	„	„	
	Avar Bark	cwt.	4 8	„	„	
	Cochineal	lb.	0 14	„	„	
	Gallnuts (myrabolam)	......	*Ad valorem.*	„	„	
	„ Persian	cwt.	35 0	„	„	
	Gamboge	lb.	2 0	„	„	
	All other sorts of dyeing and tanning materials ..	......	*Ad valorem.*	„	„	
	Lead, red, dry	cwt.	27 0	„	„	

	„ white, dry	„	42 0	„	„
	Ochre, other than European, all colours	„	2 0	„	„
	Turpentine	Imperial gallon.	8 0	„	„
	Vermillion, cauton	Box of 90 bundles.	200 0	„	„
	Zinc, white dry	cwt.	50 0	„	„
	All other sorts of paints, colours and painters' materials not otherwise specified, including glue and putty.	......	*Ad valorem.*	„	„
27	**Furniture, Cabinetware and Manufactures of Wood.**				
	Furniture, cabinetware, and all manufactures of wood not otherwise specified	......	„	„	50 per cent.
	Glassware and Earthenware-				
28	Glass and glassware, lacqureedware, earthenware, China and porcelain ; all sorts, except glass bangles, beads and false pearls and aerated water bottles (Codd's pattern) (see No. 28 a and 29)	......	„	„	„
28a	Aerated water bottles, (Codd pattern)—				
	8 ozs and under	Gross.	45 0	„	„
	Over 8 ozs.	„	55 0	„	„
29	Glass beads and false pearls	„	*Ad valorem.*	30 per cent.	100 per cent. on false pearls
	Glass bangles—				
	China—		Rs. a. p.		
	Nimuchi	100 pairs.	2 0 0	„	50 per cent.
	Bracelet Jadi and pa'alal	„	3 8 0	„	„
	Fancy	„	4 0 0	„	„

(Continued from Page 337).

4. Regulators and rheostats of all types with their accessories and resistances, except regulators for fans (other than induced or forced draft fans) and resistances intended for purposes other than the control of machinery.
5. Transformers, with their accessories or parts, static convertors and static condensers of 3 K. V. A. capacity or over.

No	NAME OF ARTICLE	Per	Tariff Valuation	Existing Duty	Proposed Duty	Remarks
			Rs. a. p.			
	Rajawarakh—					
	(a) Jada	100 pairs.	9 0 0	30 per cent.	50 per cent.	
	(b) Barik	„	6 0 0	„	„	
	(c) Patli	„	11 0 0	„	„	
	Japan—					
	Reshmi, plain and fancy, all colours, including vakmel,	doz. pairs.	0 2 0	„	„	
	Soneri kada (gelbala)...	„	0 4 0	„	„	
	European—					
	Common plain colours, excluding garnet, amber lavender and ruby	„	0 6 6	„	„	
	Common, plain colours, amber, lavender and ruby	„	0 9 0	„	„	
	Common, plain colours garnet	„	1 6 0	„	„	
	Gilt and fancy, all sizes, including Kerihira, Chandtera, Salamdar, "K" flower and Momachi	„	2 0 0	„	„	
	Panaful and machine polished, thin, including patli flowered	„	1 2 0	„	„	
	Fancy round ring, flowered	„	0 14 0	„	„	
	Common mirror bangles including chasma	„	1 0 0	„	„	
	All other kinds	......	*Ad valorem.*	15 per cent.	„	
	Hides, Skins and Leather.					
30	Hides and skins not otherwise specified, leather and leather manufactures, all sorts, not otherwise specified.	......	„	2½ per cent.	50 per cent.	
	Machinery.					
31	Machinery, namely, prime-movers and component parts thereof, including boilers and component parts thereof, also including locomotive and portable engines; steam-rollers fire-engines, motor tractors designed for purposes other than agriculture and other machines in which the prime-mover is not separable from the operative parts	......	„	2½ „	25 per cent.	Subject to a refund of the entire duty on a certificate from the Tariff Board that the taxed machinery in a given case is not made in India and therefore could not be purchased of Indian make.

Machinery (and component parts thereof), meaning machines or sets of machines to be worked by electric, steam, water, fire or other power, not being mannual or animal labour or which, before being brought into use, require to be fixed with reference to other moving parts; and including belting of all materials for driving machinery. Provided that the term does not include tools and implements to be worked by manual or animal labour and provided also that only such articles shall be admitted as component parts of machinery as are indispensable for the working of the machinery and are, owing to their shape or to other special quality, not adopted for any other purpose. *Note.*—This entry includes machinery and component parts thereof made of substances other than metal.	doz. pairs.	*Ad valorem.*	2½ per cent.	25 per cent	All component parts of machinery here described and their accessories shall be free of duty if intended and used for building up a finished machine in India; and shall be taxed 5 per cent. if sold as separate parts and accessories only.
32 Machinery and component parts thereof, meaning machinery or parts of machines to be worked by manual or animal labour, not otherwise specified (See Nos. 15, 18 and 24).	......	„	15 „	Free.	
Metals, Iron and Steel.					
33 Iron—					
Angle—					
Angle T, not fabricated—					
Crown and superior qualities	Ton.	230 0	10 per cent.	20 per cent.	
Other kinds	„	180 0	„	„	
„ „ if galvanised tinned or lead coated ...	„	230 0	„	„	
Angle and T, fabricated	......	*Ad valorem.*	„	„	
Bar-rod and channel, including channel for carriages—					
Bar, qualities superior to grade A of the British Engineering Standard Association	Ton.	400 0	„	„	

No.	NAME OF ARTICLE.	Per	Tariff Valuation	Existing Duty.	Proposed Duty	Remarks
			Rs. a.			
	Bar, Grade A of the British Engineering Standard Association and Crown quality and intermediate qualities—					
	Over ½ inch in diameter or thickness	Ton.	230 0	10 per cent.	20 per cent.	
	½ inch and under in diameter or thickness	,,	260 0	,,	,,	
	Bar, common	,,	180 0	,,	,,	
	,, ,, if galvanised, tinned or lead coated ...	,,	220 0	,,	,,	
	Channel, including channel for carriages	,,	200 0	,,	,,	
	All other sorts	......	*Ad valorem.*	,,	,,	
	Pig	Ton.	95 0	,,	,,	
	Rice Bowls	Cwt.	27 0	,,	,,	
34	Iron and Steel—					
	Nails, wire or French	......	*Ad valorem.*	,,	,,	
	Anchors and cables					
	Beams, joists, pillars, girders, screw-piles, bridge work and other descriptions of iron or steel imported exclusively for building purposes; including also ridging, guttering and continuous roofing ...	......	,,	,,	,,	
	Bolts and Nuts, including hook bolts and nuts for roofing	......	,,	,,	,,	
	Hoops and strips—	Ton.	265 0	,,	,,	
	Hoops, Crown and superior qualities	,,	220 0	,,	,,	
	,, other kinds					
	,, ,, ,, if galvanised, tinned, planished, lead	,,	275 0	,,	,,	
	coated or aluminium coated ...	,,	265 0	,,	,,	
	Strips, Crown and superior qualities	,,	220 0	,,	,,	
	,, other kinds					
	,, ,, ,, if galvanised, tinned, planished, lead coated, or aluminium coated ...	,,	275 0	,,	,,	
	Nails, Rivets, and Washers, all sorts—					
	Nails, wire or French...	Cwt.	14 0	,,	,,	
	,, rose, deck, and flat-headed	,,	20 0	,,	,,	

„ other kinds, including galvanised, tinned or lead coated, and panel pins and tacks	„	35 0	10 per cent.	„	
Rivets, black	„	16 0	„	„	
„ other sorts	„	22 0	„	„	
Washers, galvanised, nickelplated, tinned or lead coated and dome shaped, spring or locking washers.	„	*Ad valorem.*	„	„	
Washers other sorts	„	22 0	„	„	
Pipes and Tubes, and fittings thereof such as bends, boots, elbows, tees, sockets, flanges and the like ...	......	*Ad valorem.*	„	„	
Rails, chairs, sleepers, bearing and fish plates, spikes (commonly known as dog spikes), switches, and crossings, other than those described in No. 45, also lever boxes, clips, and tie-bars	......	„	„	„	
Sheets and plates, not fabricated, all sorts, excluding discs, circles and expanded metal sheets which are dutiable under No. 36	......				
Plates, boiler, firebox and special qualities above ⅛ inch in thickness	Ton.	375 0	„	„	
Sheets ⅛ inch and under in thickness, annealed, which have been either cold-rolled, smoothed (including planished), pickled, or cleaned by acid or other material or process	„	250 0	„	„	
Sheets, corrugated, galvanised or black upto and including 26 gauge	„	280 0	„	„	
Sheets corrugated galvanised or black above 26 gauge.	„	375 0	„	„	
Sheet and plate cuttings	„	140 0	„	„	
Tin plates	„	400 0	„	„	
„ cuttings	......	*Ad valorem.*	„	„	
Sheets, other kinds, black, upto and including 1/8 inch in thickness	Ton.	175 0	„	„	
Plates, ship, tank, bridge and common above 1/8 inch in thickness	„	150 0	„	„	Subject to a refund of the duty on production of a certificate from the Tariff Board that the plates &c. are to be used for building up a ship in India, as also all kinds of sheets used for an identical purpose.
Sheets, other kinds, if galvanised, tinned or lead coated, or aluminium coated, upto and including 26 gauge, also chequered and galvanised plates,	„	350 0	„	„	
Sheets, other kinds, if galvanised, tinned or lead coated, or aluminium coated, above 26 gauge, including tin taggers	„	425 0	„	„	

No.	NAME OF ARTICLE.	Per.	Tariff Valuation.	Existing Duty.	Proposed Duty	Remarks.
			Rs. a.			
	Sheets and plates, fabricated, all sorts excluding discs, circles and expanded metal sheets which are dutiable under No. 36	......	*Ad valorem.*	10 per cent.	2C per cent.	
	Wire, including fencing wire, piano wire, and wire rope but excluding wire-netting which is dutiable under No. 36	......	”	”	”	
	Steel—					
	Angle—			”	”	
	Angle and T, not fabricated, if galvanised, tinned, or lead coated	Ton.	190 0		”	
	” tinned or all other sorts	”	130 0	”	”	
	” tinned and T, fabricated	......	*Ad valorem.*	”	”	
	Bar-rod, and channel, including channel for carriages—					
	Bar, Swedish and similar qualities	Ton.	250 0	”	”	
	” common merchant over ½ inch in diameter ...	”	130 0	”	”	
	” ” ” nail-rod, round-rod, and square ½ inch in diameter and under...	”	150 0	”	”	
	” galvanised, tinned, planished, polished or lead coated	”	190 0	”	”	
	” crucible, cast steel (coil steel) including—					
	(a) High Speed	......	*Ad valorem.*	”	”	
	(b) Carbon Steel	......	”	”	”	
	” High tensile steel	......	”	”	”	
	Channel, including channel for carriages	Ton.	160 0	”	”	
	All other sorts, including faggot steel	......	*Ad valorem.*	”	”	
	Cart, including spring, blistered and tub steel ...	......	”	”	”	
	Ingots, Blooms, Billets and slabs	......	”	”	”	
36	All sorts of iron and steel, and manufactures thereof, not otherwise specified—					
	Iron or steel cans or drums, when imported containing kerosene and motor spirit which is separately assessed to duty under No. 32, namely:—					

	Cans, tinned, of four gallons capacity	Can.	0 6	15 per cent.	25 per cent.	But the sheets or plates used for making up the can or drum in India shall be charged only 15 per cent.
	Cans, or drums, not tinned, of two gallons capacity—					
	(a) With faucet caps	Can or drum.	1 8	„	„	
	(b) Ordinary	„	0 4	„	„	
	Drums of four gallons capacity—					
	(a) With faucet caps	drum.	2 4	„	„	
	(b) Ordinary		2 0	„	„	
	Iron or steel cans or drums, other sorts	„	*Ad valorem.*	„	„	
	Iron or steel, all other sorts, including disc or circles, wire-netting and expanded metal sheets	......	„	„	„	
	Metals, other than Iron and Steel.					
37	Current nickel, bronze, and copper coin of the Government of India	......	......	Free.	Free,	
38	Gold and silver Bullion and coin	......	......	„	„	
39	Gold plate, gold thread and wire and gold manufactures, all sorts	......	*Ad valorem.*	30 per cent.	50 per cent.	
40	Lead, sheets, for tea-chests	......	„	2½ per cent.	10 „	
41	Silver plate, silver thread and wire and silver manufactures, all sorts	......	„	30 per cent.	50 „	
42	All sorts of metals other than iron and steel and manufactures thereof, not otherwise specified—					
	Aluminium circles	lb.	0 15	15 per cent.	25 „	
	„ sheets	„	0 14	„	„	
	Brass, patent or yellow metal sheets and sheathing, weighing, 1 lb. or above per square foot, and braziers and plates	Cwt.	65 0	„	„	
	Brass, patent or yellow metal (including gun metal) ingots	„	32 0	„	„	
	„ „ „ „ old	„	30 0	„	„	
	Brass, sheets, flat or in rolls, and sheathing, weighing less than 1 lb. per square foot	......	*Ad valorem.*	„	„	

No.	NAME OF ARTICLE.	Per.	Tariff Valuation.	Existing Duty.	Proposed Duty	Remarks.
	Brass wire	......	15 per cent.	15 per cent.	25 per cent.	
	Brass, all other sorts	......	,,	,,	,,	
	Copper, bolt and bar, rolled	......	Rs. a.	,,	,,	
	,, braziers, sheets, plates and sheething ...	Cwt.	72 0	,,	,,	Except copper plates and sheets intended to be and used for lining or otherwise building up a ship, boat, trawler in India, in which case on a certificate being produced from the Tariff Board to that effect, the duty shall be refunded.
	,, sheets, planished	......	Ad valorem.	,,	,,	
	,, nails and composition nails	......	,,	,,		
	,, old	Cwt.	36 0	,,		
	,, pigs, tiles, ingots, cakes, bricks and slabs ...	,,	55 0	,,	,,	
	,, china, white, copperware	lb.	3 0	,,	,,	
	,, or dankpana, plain, white, 10 or 11 in. x 4 to 5 in.	Hundred leaves.	2 4	,,	,,	
	,, foil or dankpana, plain, coloured, 10 to 11 in. x 4 to 5 in.	,,	2 12	,,	,,	
	,, wire, including phosphor-bronze	......	Ad valorem.	,,	,,	
	,, all other sorts, unmanufactured and manufactured, except current coin of the Government of India which is free	......	,,	,,	,,	
	German silver	......	,,	,,	,,	
	Lead pig	Cwt.	18 0	,,	,,	
	Lead, all sorts (except sheets for tea chests and pig)...	......	Ad valorem.	,,	,,	
	Quicksilver	lb.	2 4	,,	,,	
	Tin, block	Cwt.	125 0	,,	,,	
	,, foil, and other sort	......	Ad valorem.	,,	,,	
	Zinc or spelter, tiles, slabs or plates, hard or soft ...	Cwt.	25 0	,,	,,	

	„ „ all other sorts including boiler tiles and sheets	„ ...	*Ad valorem.*	15 per cent.	25 per cent.
	All other sorts of metals and manufactures thereof ...	......	„	„	„
	Paper, Pasteboard and Stationery.				
43	Trade catalogues and advertising circulars imported by packet, book or parcel post	......	......	Free.	Free.
44	Paper and articles made of paper and papier mache, paste board, millboard, and card board all sorts, and stationery including ruled or printed forms and account and manuscript books, drawing and copy books, labels, advertising circulars, sheet or card almanacs and calendars, Christmas, Easter and other cards including cards in booklet forms including also wastepaper and old newspapers for packing except old newspapers in bales, and bags, but excluding trade catalogues and advertising circulars imported by packet, book or parcel post (see No. 43) and also excluding the descriptions given below :—	......	*Ad valorem.*	15 per cent.	30 per cent.
	Old newspapers in bales and bags	Cwt.	8 8 0	„	„
	News printing paper, glazed and unglazed	lb.	0 2 6	„	„
	Printing paper—				
	Real art	„	0 7 6	„	„
	Imitation Art, machine finish, super calendered, ivory finish, account book (printing) antique, stereo, litho, poster, cartridge, cover paper and machine glazed pressings	„	0 4 9	„	„
	Other sorts, including coated papers and flints ...	......	*Ad valorem.*	„	„
	Packing and wrapping papers —				
	Nature brown, Manilla machine-glazed and unglazed, sulphite envelope, Kraft and imitation Kraft ...	lb.	0 3 6	„	„
	Tissues, white and coloured	„	*Ad valorem.*	„	„
	Writing paper—				
	Bond, bank, and also white and coloured, glazed and unglazed	„	0 7 6	„	„

No.	NAME OF ARTICLE.	per.	Tariff Valuation.	Existing Duty.	Proposed Duty	Remarks.
	Cream laid and wove	lb.	0 6 0	„	„	
	Other sorts including handmade and loans	......	*Ad valorem.*	„	„	
	Straw boards	Cwt.	11 8 0	„	„	
	Railway Plant and Rolling Stock.					
45	Railway material for permanent-way and rolling stock, namely, cylinders, girders and other material for bridges, rails, sleepers, bearing and fish-plates, fish-bolts, chairs, spikes, crossings, sleeper fastenings, switches, interlocking apparatus, brake gear, couplings and springs, signals, turn-tables, weigh-bridges engines, tenders, carriages, wagons, traversers, trollies, trucks and component parts thereof; also the following articles when imported by or under the orders of a railway company, namely, cranes, water cranes, water tanks, and standards wire and other materials for fencing	......	*Ad valorem.*	10 „	10 per cent.	
	Provided that for the purpose of this entry "railway" means a line of railway subject to the provisions of the Indian Railways Act, 1890, and includes a railway constructed in a State in India and also such tramways as the Governor-General in Council may, by notification in the *Gazette of India*, specifically include therein					
	Provided also that only such articles shall be admitted as component parts of railway material as are indispensable for the working of railways and are, owing to their shape or to other special quality, not adopted for any other purpose					

	Yarns and Textile Fabrics.					
46	Cotton piece goods	......	*Ad valorem.*	11 per cent.	......	Cotton piece-good shall be charged duty as follows:—on cloth made of yarn of 10 counts and under ... 5% between 10 and 15 counts. 10% " 15 " 20 " 20% " 20 " 30 " 25% " 30 " 40 " 30% " 40 " 80 " 35% " 80 " 120 " 40% over 120 counts ... 50%
47	Cotton twist and yarn, and cotton sewing or darning thread	......	"	5 "	......	Cotton yarn shall be taxed at 20 per cent. over 20 counts and under 40 counts and 25 per cent. on all counts over 40, subject to a refund of the entire duty to any cotton weaving mill owned and worked on the co-operative principles, as also to any bona fide handloom weaver individually or associated in a co-operative society of handloom weavers.
48	Second hand or used gunny bags made of jute ...	......	......	Free.	Free.	
49	Yarns and Textile Fabrics, that is to say—					
	Cotton thread other than sewing or darning thread, and all other manufactured cotton goods not otherwise specified	......	*Ad valorem.*	15 per cent.	15 per cent.	
	Flax, twist and yarn and manufactures of flax ...	......	"	"	"	
	Haberdashery and millinery excluding articles made of silk	......	"	"	30 "	
	Hemp manufactures	......	"	"	15 "	
	Hosiery excluding articles made of silk	......	"	"	30 "	

No.	NAME OF ARTICLE.	Per.	Tariff Valuation.	Existing Duty.	Proposed Duty	Remarks.
	Jute twist and yarn and jute manufactures, excluding second-hand or used gunny bags (see No. 45) ...	......	*Ad valorem.*	15 per cent.	20 per cent.	
	Silk yarn, noils and warps, and silk-thread ...	......	,,	,,	5 ,,	
	Woolen yarn, knitting wool, and other manufactures oil wool, including felt	......	,,	,,	5 ,,	
	All other sorts of yarns and textile fabrics, not otherwise specified	......	,,	,,	5 ,,	
	Silk, piece-goods, and other manufactures of silk.—					
50	Silk piece-goods (white or coloured, plain or figured and all widths) from Japan and China (including Hongkong).—					
	Japan—					
	Paj, Thama; Junken and Nankin, all kinds, including striped, printed, embossed and pine-apples ...	lb.	28 0	30 per cent.	50 ,,	The Cotton Excise duty shall be abolished.
	Satins and Kohaku, all kinds, including stripped, printed, woven and embossed	,,	33 0	,,	,,	
	Twill, all kinds	,,	29 0	,,	,,	
	Jarina (gold embroidered)	,,	37 0	,,	,,	
	Fugi and Boseki, all kinds	,,	23 0	,,	,,	
	Fancies, printed and woven, including Georgettes, kobe-crepes, crepe-de-chine, ninons and gauzes	,,	42 0	,,	,,	
	Embroideries, excluding Burmese scarves	,,	55 0	,,	,,	
	Shawls, dhuties, scarves, excluding Burmese, mufflers, handkerchiefs and hosiery	,,	44 0	,,	,,	
	Dupettas and China Silk patkas	,,	23 0	,,	,,	
	Burmese Scarves (a) Paj	,,	38 0	,,	,,	
	,, ,, (b) other kinds	,,	46 0	,,	,,	
	Cotton and silk mixed satins, embroidered	,,	16 0	,,	,,	
	,, ,, ,, ,, other kinds	,,	12 0	,,	,,	
	,, ,, ,, Hosiery ,, ,, ...	,,	26 0	,,	,,	
	,, ,, ,, Boseki, all kinds	,,	12 0	,,	,,	

	Silk fents	,,	14 0	,,	,,
	China (including Hongkong but excluding cautons)—				
	Honanas, all kinds, and Patkas	,,	9 0	,,	,,
	Shantungs, all kinds, and Putkas	,,	5 8	,,	,,
	Corded, all kinds except woochow	,,	8 0	,,	,,
	White cord (woochow), all kinds	,,	16 0	,,	,,
	Crepe gauge and paj, all kinds	,,	23 0	,,	,,
	Satins and fancies, all kinds	,,	31 0	,,	,,
	Cautons, all kinds	,,	*Ad valorem.*	,,	,,
	Silk piece goods, apparel and other manufactures of silk not otherwise specified	......	,,	,,	,,
	Miscellaneous.				
51	Aeroplanes, aeroplane parts, aeroplane engines and aeroplane engine parts	......	......	2½ ,,	Free.
52	Art, the following works of :—(1) statuary and pictures intended to be put up for the public benefit in a public place, and (2) memorials of a public character intended to be put up in a public place, including the materials used, or to be used in their construction, whether worked or not	......	......	Free.	,,
53	Art, works of, excluding those specified in No. 52 ...		*Ad valorem*	15 per cent.	10 per cent.
54	Bangles,—	Dozen pairs.			
	Celluloid, plain flat without border	,,	2 0	,,	25 ,,
	,, other sorts	,,	2 8	,,	,,
	,, (rubber) rings		0 12	,,	,,
55	Books, printed, including covers for printed books, maps, charts, and plans, proofs, music and manuscripts	......	......	Free.	Free.
56	Brushes and Brooms	......	*Ad valorem.*	15 per cent.	No change.
57	Building and Engineering materials (including asphalt, bricks, cement other than Portland cement, chalk and lime, clay, other than China clay (see No 59), pipes of earthenware, tiles and all other sorts of building and engineering materials not otherwise specified.	......	,,	,,	25 per cent.

No.	NAME OF ARTICLE.	Per	Tariff Valuation.	Existing Duty.	Proposed Duty	Remarks.
	Portland cement	Cwt.	3 8	15 per cent.	25 per cent.	
58	Candles	......	*Ad valorem.*	„	„	
59	China clay	Ton.	90 0	„	„	
60	Cinematograph Films :—			„	„	
	Exposed standard positive films new or used ...	Foot.	0 4			
	Other films	......	*Ad valorem.*	„	„	
61	Cordage and rope and twine of vegetable fibre ...	......	„	......	„	
62	Fireworks	......	„	30 „	50 per cent.	
63	Furniture, tackle and apparel, not otherwise described, for steam, sailing, rowing and other vessels ...	......	„	15 „	5 „	
64	Ivory, manufactured	......	„	30 „	50 „	
65	Jewellery and jewels	......	„	30 „	„	
66	Matches—			Rs. a.		
	(1) In boxes containing on the average not more than 100 matches	Gross of boxes.	......	1 8	No change.	
	(2) In boxes containing on the average more than 100 matches	For every 25 matches or fraction thereof in each box, per gross of boxes.	......	0 6	„	
67	Mats and mattings	......	*Ad valorem.*	15 per cent.	„	
68	Oil cakes	......	„	„	„	
69	Oil cloth and floor cloth	......	„	„	„	
70	Packing—Engine and Boiler—all sorts, excluding packing forming a component part of any article included in No. 31 and No. 45	......	„	„	„	

71	Perfumery, not otherwise specified.—					
	Gowla husked and unhusked … … …	Cwt.	50	0	,,	30 per cent.
	Kapur kachri (zedoary) … … … …	,,	25	0	,,	,,
	Patch leaves (patchouli) … … … …	,,	30	0	,,	,,
	Rose-flowers, dried … … … … …	,,	20	0	,,	,,
	Rose-water … … … … …	Imperial gallon.	5	0	,,	,,
72	Pitch, tar and dammer—					
	Coal pitch … … … … … …	Cwt.	7	8	,,	No change.
	Coal tar, in cakes … … … … …	,,	7	8	,,	,,
	,, in drums … … … … …	,,	10	0	,,	,,
	Stockholm tar … … … … …	,,	25	0	,,	,,
	Dammer Batu … … … … …	,,	7	8	,,	,,
	Other sorts … … … … …	……	*Ad valorem.*		,,	,,
73	Pneumatic Rubber Tyres and tubes for motor cars, motor lorries, motor cycles, motor-scooters, bicycles and tricycles. † … … … … …	……	,,		30 ,,	30 per cent.
74	Polishes and compositions … … … …	……	,,		15 ,,	25 ,,
75	Printing and Lithographing Material, namely, presses, type, ink, aluminium, lithographic plates, brass rules, composing sticks, chases, imposing tables, and lithographic stones, stereo-blocks, wood blocks, half-tone blocks, electro type blocks, roller moulds, roller frames and stocks, roller composition, standing screw and hot presses, perforating machines gold blocking presses, gallery presses, proof presses, rolling pressing, ruling machines, ruling pen making machines, lead and rule cutters, type casting machines type setting and casting machines, rule bending machines, rule mitreing machines, bronzing machines, leads, wooden and metal quoins apparatus, metal furniture, paper folding machines, and paging machines, but excluding paper (see No. 44).	……	,,		2½ ,,	Free.

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* Under the Government of India Notification No. 4467, dated 2nd September 1922, such fireworks as are specially prepared as danger or distress lights for the use of ships are liable to duty at 15 per cent *ad valorem*.

† Under Government of India Notification No. 1776, dated 1st April 1922, pneumatic rubber tyres and tubes for bicycles and tricycles are liable to duty at 15 per cent.

No.	NAME OF ARTICLE.	Per.	Tariff Valuation.	Existing Duty	Proposed Duty	Remarks
76	Prints, engravings and pictures, including photographs and picture post-cards	......	*Ad valorem.*	30 per cent.	10 per cent.	
77	Racks for the withering of tea leaf	......	„	2½ „	No change.	
78	Rubber tyres and other manufactures of rubbers not otherwise specified (see No. 73)	......	„	15 „	30 per cent.	
79	Ships and other vessels for inland and harbour navigation, including steamers, launches, boats, and barges, imported entire or in sections	......	„	10 „	5 „	
80	Smokers' requisites, excluding tobacco (Nos. 117 to 119) and matches (No. 66)	......	„	30 „	50 „	
81	Soap	......	„	15 „	30 „	
82	Starch and farina	......	„	„	„	
83	Stone and marble, and articles made of stone and marble	......	„	„	„	
84	Tea-chests of metal or wood whether imported entire or in sections, provided that the Collector of Customs is satisfied that they are imported for the purpose of the packing of tea for transport in bulk ...	......	„	2½ „	5 „	
85	Toilet requisites, not otherwise specified	......	„	15 „	25 „	
86	Toys, games, playing cards and requisites for games, and sports, excluding bird-shot	......	„	30 „	50 „	
	Bird shot	Cwt.	40 0	30 „	„	
87	All other articles wholly or mainly manufactured, not otherwise specified	......	*Ad valorem.*	15 „	10 „	
	II. Miscellaneous and Unclassified.					
88	Animals, living, all sorts	......	......	Free.	Free.	Except race-horses which shall be taxed 25 per cent. on the invoiced value.
89	Coral	......	*Ad valorem.*	15 per cent.	10 per cent.	
90	Fodder, Bran and pollards	......	„	2½ „	Free.	

91	Specimens illustrative of natural science, and medals and antique coins	......	......	Free.	„
92	Umbrellas, including parawls and sunshades, and fittings therefor	......	*Ad valorem.*	15 per cent.	30 per cent.
93	All other articles not otherwise specified including articles imported by post	......	„	15 „	10 „
	III.—Food, Drink and Tobacco. **FISH.**		Rs. as.		
94	Fish, salted, wet or dry	Indian maund of 82 2/7 lbs. avoirdupois weight.	......	Such rate or rates of duty not exceeding one rupee as the Governor - General in Council may, by notification in the *Gazette of India*, from time to time prescribe.	10 per cent. 20 „
95	Fishmaws, including singally and sozille, and sharkfins.				
96	Fish, excluding salted fish (see No. 94)	......	*Ad valorem.*	15 per cent.	„
	Fruits and Vegetables.				5 per cent.
97	Fruits and Vegetables, all sorts, fresh, dried, salted or preserved—	......	„	„	„
	Almonds without shell	Cwt.	72 0	15 per cent.	„
	„ in the shell	„	18 0	„	„
	Kagazi ... Persian	„	125 0	„	10 per cent.
	Kagazi ... European, including half hard round almonds ...	„	35 0	„	„
	Cashew or cajoo kernels	„	25 0	„	„
	Cocoanuts, Straights and Dutch East Indies	Thousand.	135 0	„	„
	„ Maldives	„	30 0	„	„
	„ Other	„	60 0	„	„
	„ Kernel (khopra)	Cwt.	18 0	„	„

The rate on 1st January 1923 and until further notice is annas 7½.

No.	NAME OF ARTICLE.	Per.	Tariff Valuation.	Existing Duty.	Proposed Duty	Remarks.
	Currants	Cwt.	35 0	15 per cent.	10 per cent.	
	Dates, dry in bags	„	9 0	„	„	
	„ wet, in bags, baskets and bundles	„	7 0	„	„	
	„ „ in pots, boxes, tins and crates	„	12 0	„	„	
	Figs, Persian dried	„	15 0	„	„	
	Garlic	„	7 8	„	„	
	Pistachio nuts...	„	90 0	„	„	
	Raisins, munakka, Persian gulf	„	15 0	„	„	
	„ other sorts	......	*Ad valorem.*	„	„	
	All other sorts of fruits and vegetables, fresh, dried, salted or preserved	......	„	„	„	
	Grain, Pulse and Flour.					
98	Grain and Pulse, all sorts, including broken grains and pulse, but excluding flour (see No. 99)	......	„	2½ „	Free.	Articles of food, whether grain, pulse or spices are ordinarily not to be taxed.
99	Flour	......	„	15 „	25 per cent.	
	Liquors.					
100	Ale, Beer, and Porter, Cider and other fermented liquors	Imperial gallon or 6 quart bottles.	......	Rs. as. 0 8	Or 100 per cent whichever is higher.	
101	Liquors, cordials, mixtures and other preparations containing spirit—					
	(a) Entered in such a manner as to indicate that the strength is not to be tested	„	......	30 0	100 per cent.	

	(b) If tested	Imperial gallon or 6 quart bottles of the strength of London proof.	......	Rs. a. p. 21 14 0 And the duty to be increased or reduced in proportion or the strength of the spirit exceeds or is less than London proof.		
102	Perfumed spirits	Imperial gallon or 6 quart bottles.	......	36 0 0	or 100 per cent. whichever is higher.	The duties on wines, liquors and portable spirits are not for protective but for prohibitionist purposes.
103	Spirit which has been rendered effectually and permanently unfit for human consumption	......	*Ad valorem.*	7½ per cent.	5 per cent.	
104	All other sorts of spirit	Imperial gallon or 6 quart bottles of the strength of London proof.	......	21 14 0 and the duty to be increased or reduced in proportion as the strength of the spirit exceeds or is less than London proof.	or 100 per cent whichever is higher.	
105	Wines—					
	Champagne and all other sparkling wines not containing more than 42 per cent. of proof spirit.	Imperial gallon or 6 quart bottles.	......	9 0 0	or 100 per cent. whichever is higher.	
	All other sorts of wines, not containing more than 42 per cent. of proof spirit	"	......	4 8 0	"	
	Provided that all sparkling and still wines containing more than 42 per cent. of proof spirit shall be liable to duty at the rate applicable to "All other sorts of spirit."					
	Provisions and Oilman's Stores.					
106	Vinegar, in casks	......	*Ad valorem.*	2½ per cent.	10 per cent.	

No.	NAME OF ARTICLE.	Per.	Tariff Valuation.	Existing Duty.	Proposed Duty	Remarks.
			Rs. a.			
107	Provisions, Oilman's Stores, and Groceries, all sorts, excluding vinegar in casks (see No. 106)—					
	Butter	lb.	2 4	15 per cent.	30 per cent.	These are all luxuries and the duties are charged accordingly.
	Cassava, Tapioca, or Sago whole	Cwt.	13 0	”	”	
	” ” ” flour	”	12 0	”	”	
	China preserves in syrup	Box of 6 large or 12 small jars.	19 0	”	”	
	” ” dry, candied	lb.	0 8	”	”	
	China canned fruit	Case of 4 dozen	17 0	”	”	
	Cocum	Cwt.	7 0	”	Free.	
	Ghi	”	50 0	”	”	
	Milk—					
	Concentrated, full cream	Case of 48 large or 96 small tins.	28 0	”	30 per cent.	
	” skimmed	”	19 0	”	”	
	Other sorts including cream	......	*Ad valorem.*	”	”	
	Saffron pure	lb.	85 0	”	5 ”	
	Vermialli, flour, chinese	Cwt.	32 0	”	30 ”	
	” Peas	”	40 0	”	”	
	” Rice	”	17 0	”	”	
	Vinegar, not in casks	......	*Ad valorem.*	”	”	
	Yeast, Chinese	Cwt.	30 0	”	”	
	All other sorts of provisions, oilman's stores and groceries	......	*Ad valorem.*	”	”	

	Spices.				
108	Spices, all sorts—				
	Betelnuts, raw, whole, split, or sliced, also red whole from Goa	Cwt.	14 0	15 per cent.	5 ,,
	Betelnuts raw, whole split from Straights	,,	14 0	,,	,,
	,, boiled, split or sliced	,,	17 8	,,	,,
	Betelnuts, whole, from Ceylon	Cwt.	14 0	,,	5 per cent.
	,, raw, split (sun-dried), from Ceylon ...	,,	25 0	,,	,,
	,, all other sorts	......	*Ad valorem.*	,,	,,
	Chillies, dry	Cwt.	25 0	,,	,,
	Cloves	,,	65 0	,,	,,
	,, exhausted	,,	20 0	,,	,,
	,, stems and heads	,,	9 0	,,	,,
	,, in seeds, narlavang	,,	20 0	,,	,,
	Ginger, dry	,,	25 0	,,	,,
	Mace	lb.	0 12	,,	,,
	Nutmegs	,,	0 6	,,	,,
	,, in shell	,,	0 4	,,	,,
	Pepper black	Cwt.	26 0	,,	,,
	,, white	,,	60 0	,,	,,
	All other sorts of spices	......	*Ad valorem.*	,,	,,
	Sugar.				
109	Confectionery	......	,,	30 ,,	50 ,,
110	Sugar, all sorts, including molasses and saccharine produce of all sorts, but excluding confectionery (see No. 109)—				
	Sugar, crystallised and soft, not inferior to 8 Dutch standard	Cwt.	16 4	25 ,,	35 ,,
	From Java, 23 Dutch standard and above	,,	14 4	,,	,,
	,, ,, 16 to 22 Dutch ,, ,, ,, ...	,,	13 12	,,	,,
	,, ,, 15 Dutch standard and under	,,	18 4	,,	,,
	,, Japan or Formosa	,,	18 4	,,	,,

No.	NAME OF ARTICLE.	Per.	Tariff Valuation.	Existing Duty.	Proposed Duty	Remarks.
			Rs. a.			
	Refined in China including Hongkong	Cwt.	18 4	25 per cent.	35 per cent.	
	From Egypt	"	17 4	"	" "	
	" Mauritius	"	14 12	"	"	
	Cane, from other countries	"	14 12	"	30 "	
	Sugar, crystallised, beet	"	16 4	"	50 "	
	Molasses	"	4 0	"	35 "	
	Sugar, all other sorts, including saccharine produce of all kinds	......	*Ad valorem.*	"	"	
	Sugar-candy	Cwt.	25 0	"	"	
	Tea.					
111	Tea—					
	Tea, black	lb.	0 10	15 "	No change.	
	" green	"	0 12	"	"	
112	Coffee	Cwt.	38 0	"	"	
113	Hops	......	......	Free.	10 per cent.	
	Salt.					
114	Salt, excluding salt exempted under No. 115 ...	Indian maund of 82 2/7 lbs avoirdupois weight.	......	The rate at which excise duty is for the time being leviable on salt manufactured in the place where the import takes place.*	No change.	
115	It imported into British India and issued, in accordance with rules made with the previous sanction of the Governor-General in Council, for use in any process of manufacture; also salt imported into the port of Calcutta and issued with the sanction of the Government of Bengal to manufacturers of glazed stoneware; also salt imported into any post in the provinces of Bengal and Behar and Orissa and issued,	......	......	Free.	"	

	in accordance with rules made with the previous sanction of the Governor-General in Council, for use in curing fish in those provinces.					
116	All other sorts of food and drink not otherwise specified	... ...	*Ad valorem.*	15 per cent.	10 per cent.	
	Tobacco.					
117	Tobacco, unmanufactured	lb.	... ...	1 0	or 50 per cent whichever is higher.	
118	Cigars and cigarettes	... ...	*Ad valorem.*	75 per cent.	100 per cent.	
119	All other sorts of tobacco manufactured	lb.	.....	2 4	or 100 per cent whichever is higher.	
	IV.—Raw Materials and Produce and Articles mainly unmanufactured.					
	Coal, Coke and Patent Fuel.					
120	Coal, Coke and Patent Fuel	Ton.	......	0 8	No change.	In all cases of raw material or articles partially manufactured, a refund of the duty charged shall be made to the extent of not exceeding 50 per cent, unless otherwise provided in the case of a specified article, on the production of a certificate from the Tariff Board to the effect that the article on which the refund is demanded is bona *fide* intended for further manufacture in this country.

* The rate of excise duty on 1st January 1923 and until further notice is Rs. 1-4-0.

No.	NAME OF ARTICLE.	Per.	Tariff Valuation.	Existing Duty.	Proposed Duty	Remarks.
	Gums, Resins and Lac.					
121	Gums, Resins and Lac, all sorts—					
	Gambier, block	Cwt.	27 0	15 per cent.	25 per cent.	
	„ cube	„	27 0	„	„	
	„ other sorts	......	*Ad valorem.*	„	„	
	Gum Ammoniac	Cwt.	40 0	„	„	
	„ Arabic	„	25 0	„	„	
	„ Benjamin, red	„	25 0	„	„	
	„ „ cowrie	„	60 0	„	„	
	„ Bysabol (coarse myrrh)	„	50 0	„	„	
	„ Olibanum or frankincense	„	15 0	„	„	
	„ Persian (false)	„	12 0	„	„	
	Myrrh	„	50 0	„	„	
	Resin	„	16 0	„	„	
	All other sorts of gums, gumresins, and articles made of gum or gum resin	......	*Ad valorem.*	„	„	
	Hides and Skins, Raw.					
122	Hides and skins, raw or salted	......	......	Free.	Free.	
	Metallic Ores, and Scrap Iron or Steel for remanufacture.					
123	Iron or steel, old	Cwt.	2 0	10 per cent.	No change.	
124	Metallic Ores, all sorts	......	......	Free.	„	
	Oils.					
125	Kerosene and Motor Spirit; also any mineral oil other than kerosene and motor spirit which has its flashing	Imperial gallon.	......	0 2 6	„	

	point below one hundred degrees of Fahrenheit's thermometer by Abel's close test.*				
126	Mineral Oil which has its flashing point at or above two hundred degrees of Fahrenheit's thermometer and is such as is not ordinarily used for any other purpose than for the batching of jute or other fibre or for lubrication.—				
	Batching oil	Ton.	125 0	7 1/2 per cent.	15 per cent.
	Other sorts	......	*Ad valorem.*	"	"
126a	Mineral oil which has its flashing point at or above one hundred and fifty degrees of Fahrenheit's thermometer and is such as is not ordinarily used except as fuel or for some sanitary or hygienic purpose—				
	(i) Imported in bulk	Ton.	65 0	"	"
	(ii) Otherwise imported	......	*Ad valorem.*	"	"
127	All sorts of animal, essential, mineral, and vegetable non-essential oils not otherwise specified (see Nos. 125, 126 and 126a):—				
	Cocoanut oil	Cwt.	30 0	15 "	30 "
	Linseed oil, raw and boiled	Gallon.	4 8	"	"
	All other sorts of oil	......	*Ad valorem.*	"	"
128	Oil seeds, imported into British India by sea from the territories of any Prince or Chief in India ...	......	......	Free.	Free.
129	Seeds, all sorts, excluding oil-seeds specified in No. 128	......	*Ad valorem.*	15 per cent.	10 "

Tallow, Stearine and Wax.

130	Vegetable Wax	Cwt.	65 0	"	No change.
130a	Tallow and Stearine, including grease and animal fat, and wax of all sorts, not otherwise specified ...	......	*Ad valorem.*	"	"

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* Motor spirit is liable to an additional duty of six annas per gallon under Act II of 1917 as amended by Act III of 1919.

No.	NAME OF ARTICLE.	Per.	Tariff Valuation.	Existing Duty.	Proposed Duty	Remarks.
	Textile Materials.					
131	Cotton, raw	......	......	Free.	No change.	
132	Wool, raw and wool tops	......	......	"	"	
133	Textile materials, the following :—					
	Silk waste and raw silk including cocoons—					
	Bokhara	lb.	10 0	15 per cent.	10 per cent.	
	Floss	...	*Ad valorem.*	"	"	
	Raw Silk-yellow Shanghai, including re-reeled ...	lb.	8 0	"	"	
	Yellow from Indo-China, and places in China other than Shanghai including re-reeled ...	"	9 0	"	"	
	Mathow	"	6 0	"	"	
	Panjam	"	5 0	"	"	
	Persian	"	8 0	"	"	
	Siam	"	8 0	"	"	
	White Shanghai, Thonkoon or Duppion ...	"	5 8	"	"	
	White Shanghai other kinds including re-reeled.	"	8 8	"	"	
	White other kinds of China, including re-reeled.	"	10 0	"	"	
	Waste and kachra	......	*Ad valorem.*	"	"	
	All other sorts, including cocoons	......	"	"	"	
	Raw hemp	Cwt.	22 0	"	"	
	Coir yarn	"	11 0	"	"	
	Raw Flax, Jute and all other unmanufactured textile materials not otherwise specified...	......	*Ad valorem*	"	Free.	
	Wood and Timber.					
134	Firewood	......	"	2 1/2 "	"	
135	Wood and timber, all sorts, not otherwise specified, including all sorts of ornamental wood.	......	"	15 "	10 per cent.	Subject to the exception that all kinds of ornamental wood and wood-work shall be charged duty at 25 per cent and all other wood and timber used in making ships or boats or parts thereof shall be free.

	Miscellaneous.				
136	Canes and rattans	......	*Ad valorem.*	15 per cent.	10 per cent.
137	Cowries and Shells—				
	Cowries, bazar, common	Cwt.	7 0	"	"
	" Yellow, superior quality	"	8 0	"	"
	" Maldive	"	11 0	"	"
	" Sankhli	"	140 0	"	"
	Motor-of-pearl, nacre	"	20 0	"	"
	Nakhla	"	135 0	"	"
	Tortoise-shell	lb.	7 0	"	"
	" nakh	"	2 4	"	"
	All other sorts, including articles made of shell, not otherwise described	......	*Ad valorem.*	"	"
138	Ivory, unmanufactured—				
	Elephants' grinders...	Cwt.	300 0	"	25 per cent.
	" Tusks (other than hollows, centres, and points), each exceeding 20 lb. in weight, and hollows, centres, and points each weighing 10 lbs and over	"	375 0	"	"
	Elephants' Tusks (other than hollows, centres and points), not less than 10 lbs. and not exceeding 20 lbs. each, and hollows, centres, and points each weighing less than 10 lb.	Cwt.	700 0	"	
	Elephants' tusks, each less than 10 lb. (other than hollows, centres and points)	"	450 0	"	
	Sea-cow or moye teeth, each not less than 4 lb. ...	"	260 0	"	
	Sea-cow or moye teeth, each not less than 3 lb. and under 4 lbs.	"	165 0	"	
	Sea-cow or moye teeth, each less than 3 lb. ...	"	100 0	"	
	All other sorts unmanufactured not otherwise specified	......	*Ad valorem.*	"	
139	Manures, all sorts, including animal bones and the following chemical manures :— Basic slag, nitrate of ammonia, nitrate of soda, muriate of potash, kainit salts, nitrate of lime, calcium cyanomide, mineral phosphates and mineral superphosphates.	......	......	Free.	

No.	NAME OF ARTICLE.	Per.	Tariff Valuation.	Existing Duty.	Proposed Duty	Remarks.
140	Precious stones, unset and pearls, unset	......	......	Free.		
141	Precious stones, imported uncut and unset and imported cut	......	*Ad valorem.*	15 per cent.		
142	Pulp of wood, rags and other paper-making materials.	......	......	Free.		
143	All other raw materials, and produce and articles mainly unmanufactured, not otherwise specified.	......	*Ad valorem.*	15 per cent.		
	EXPORT DUTIES.					
	Jute other than Bimlipatam Jute.					
1	Raw jute—					
	(1) Cuttings	Bale of 400 lbs.	......	1 4	No change.	
	(2) All other descriptions	„	......	4 8	„	
2	Jute manufactures when not in actual use as coverings, receptacles or bindings for other goods—					
	(1) Sacking (cloth, bags, twist, yarn, rope, and twine)	Ton of 2240 lbs.	......	20 0	„	
	(2) Hessians and all other descriptions of jute manufactures not otherwise specified ...	„	......	32 0	„	
	Rice.					
3	Rice, husked or unhusked, including rice flour, but excluding rice bran and rice dust, which are free ...	Indian maund of 82 2/7 lbs avoirdupois weight.	......	0 3	Free.	Subject to the provisions of section IX of this Act.
	Tea.					
4	Tea	100 lbs.	......	1 8	No change.	
	Hides and Skins.					
5	Raw hides and skins if exported from Burma—					
	(1) Arsenicated and air dried hides—					
	(*a*) Cows (including calf skins)	lb.	0 5 0	15 per cent.	„	
	(*b*) Buffaloes „ „	„	0 2 0	„	„	

(2) Dry salted hides.—						
(a) Cows (including calf skins)	„	0	2	0	„	
(b) Buffaloes „ „	„	0	1	0	„	
(3) Wet salted hides—						
(a) Cows (including calf skins)	„	0	2	0	„	
(b) Buffaloes „ „	„	0	1	0	„	
(4) Goat and Kid Skins	Piece.	1	0	0	„	
(5) Sheep skins	„	0	8	0	„	
Raw Hides and Skins if exported from any place in British India other than Burma:—						
(1) Arsenicated and air dried hides—						
(a) Cows (including calf skins)—						
Framed	lb.	0	6	0	„	Free.
Unframed	„	0	2	6	„	
(b) Buffaloes (including calf skins)—						
Framed	„	0	2	6	„	
Unframed	„	0	1	6	„	
(2) Dry salted hides—						
(a) Cows (including calf skins)	„	0	2	0	„	
(b) Buffaloes „	„	0	1	0	„	
(3) Wet salted hides.—						
(a) Cows (including calf skins)	„	0	2	0	„	
(b) Buffaloes „ „	„	0	1	0	„	
(4) Goat and Kid Skins	piece.	1	0	0	„	
(5) Sheep Skins	„	0	8	0	„	

PART IV.

TRANSPORT.

Chapter XV.

TRANSPORT IN RELATION TO INDUSTRY AND COMMERCE.

CI. EVOLUTION OF THE IDEA OF TRANSPORT.

Human records are too insufficient to tell us definitely when the idea of transporting goods and services first came into being. Movement seems to be instinctive in all animals; and the association of movement with the idea of progress seems to be subconsciously, if not deliberately, accepted by the human race as an invariable concomittance from the dimmest recesses of our antiquities. There is not a record of civilisation, but exhibits a tendency to move, to expand in space and embrace in kind. The Kaiser' ambition to secure "a place in the sun" for the German race was a super-chromatic expression of a most primitive human instinct. The nomad African seems to be a more direct ancestor of the modern globe-trotter than the monkey is believed to be of man. The will to discover is rooted in the instinct of curiosity. It drives a child to poach on a honeycombe in the garden, and a Columbus to find the Americas, or a Livingstone to wander up to the source of the Nile. But while the very constitution of man makes him a wanderer; and so transportation, simply, in the sense of movement, must be regarded to be co-terminous with mankind; it is not equally self-evident to say that the informed purpose and definite aim, which we now associate with means of transport and the aims of transportation considered economically, are of an equal antiquity. In all probability the earliest transportation was undertaken for mere curiosity; but the desire to conquer must have followed hard on its heels. That unavoidably breeds the border raider; and he, in his turn, evolves the military conqueror and the unwelcomed colonist. Besides, in the earliest days it must have been easier to transport man than to move material over any considerable distances. The thirst for adventure might be conceded to be more powerful than the steam engine — only if we consider the motive force as affecting individual man who would scale the hills and swim the seas just for the mere fun of the adventure. But to take goods along with him would be an entirely different proposition. Even if it does not compel him to make the roads, and bridge the rivers and dam the tides, it would certainly require him to build a boat or tame the horse, or at least to fashion a knapsack. Economic transportation, viewed as commerce between distant peoples, is certainly a very ancient achievement, which nevertheless remains a great modern phenomenon. But it certainly must have been an after-thought, a side issue, or an accident in the earliest movements of mankind.

CII. THE RELATIVE ANTIQUITIES OF THE MEANS OF TRANSPORT.

Amongst the means of transport, again, the relative antiquity of each is a matter of very considerable interest. The airway may be admitted to be only an antiquity in the making for future generations of mankind. But between the road-way and the water-way the relative antiquity is by no means so easy to determine.* The progress of civilisation seems to have always followed the waters of the principal rivers — the Nile, the Rhine, the Ganges or the Yangtse. The later developments of steam or electricity may be quite accurately dated and assigned; but they affect only the motive power; not the means of transport. The river has, among every civilised people, been invested with attributes of divinity, probably because it was the earliest recognised means to bring, if not to produce, wealth and sustenance. The question of cost may have had something to do with the early preference for water-ways over land routes. For, while the former was readymade, the latter would have had to be specially prepared.

> "Throughout commercial history it is safe to say that, taken as a whole, water transport has been cheaper than land transport. Nor is the reason far to seek. Not only has the land road to be constructed,—and this frequently entails great labour and expense,—but it has to be kept in a state of repair. An untended road sooner or later relapses into an impassable condition. x x x x The water-road of lake, river, or sea, with the natural modifications worked by time, changes but little during the history of a nation. On the whole, it may be said that the natural road enjoys a permanency quite foreign to any human attempts at road-making on land. The modern example of this fact can be illustrated by studying the capital outlay required for a railway company and a steamship company of the present time. The largest railway company of the United Kingdom is saddled with a capital of upwards of £ 200,000,000 sterling; but there is not a single British steamship company whose capital even approximated to £ 10,000,000. And the total value of the mercantile marine of the United Kingdom, which comprises no less than 18,250,000 tons of shipping, is only about £150,000,000. Yet this shipping carries on somewhere about one-half of the ocean transport business of the whole world. x x x x x The modern world has to secure large quantities of capital to secure a modern land road. The ancient world had to put forth great efforts to construct even a suitable track for the transport of weighty commodities. The amount of capital sunk in ancient roads was probably never either considered, estimated or even approximately totalled up." †

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* "When the primitive trader had a few goods to transport a few miles, he might, or might not, have the choice of routes. If, however, he lived on the banks of a river, or lake or by the sea, he enjoyed the advantage of the choice." *History and Economics of Transport* by Kirkaldy and Evans. But the choice would really be remarkable if we assume that the first human settlements were inland. As, however, history shows the chief movements of mankind to have followed the course of great rivers, I think, the choice even if it offered itself would not have been availed of by the first trader. As the writers, already quoted, themselves show later on, the coracle certainly must have preceded the cart; and in the same measure the river must have come before the road.

† Kirkaldy and Evans op. cit, pp. 2-4

The land-transport, indeed, was not quite neglected. It may even have been developed relatively more fully in the earlier times than the ready to hand water-transport in spite of the relatively cheaper character of the latter; not only because of the inherent dangers of the latter, which could not quite be overcome until the discovery of the compass, * and the charting of the unseen bed of the river or the ocean, but also because of the more insistent and consistent demand for the improved land route for political reasons. We may say the road was a response to the soldier rather than to the merchant. The cost and care in planning, making and maintaining a well built permanent road of the Roman type in Europe or the Mauryan type in India would alone be prohibitive to the goods carriage available in those days, were it only the trader and the industrialist who wanted such roads. Rome built roads because she was an Imperialist; and all her compeers in the imperialistic ideas imitated her elsewhere. The military roads may have, indeed, afterwards served the need of commerce even more in proportion; but that was not their intention. And even to-day, bar the somewhat exceptional conditions of the United Kingdom and the United States, † the principal land routes, worked by the railroads of the world, are at least as much the creations of military requirements as of mercantile demands. And the military requirements must be the more important as the motive spring in road-building at any time in human history, since:

> "It is estimated that on a good wagon road a single horse power will drag about 3000 lbs. at the rate of 3 feet. per second; on a railway about 30,000 at the same rate; in water as much as 200,000 lbs." ‡

Both road and water transports would, of course, require accessories for the conveyance of bulky or weighty commodities; and the cost of these must be added to the cost of construction, maintenance and replacement of the original road-bed. But, stage for stage, if we take them, the accessories needed in water communication would be found to be easier or cheaper to fashion or produce than the corresponding requirements in road-trans-

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* We have already noticed in the Introduction the validity of the claim of Hippalus to have discovered the monsoon in the Indian seas. Here is another example of the egregious vanity of half-baked European writers in claiming all scientific discoveries to be exclusively European monopolies. The Mariner's compass is commonly regarded in Europe to have been discovered by some Italian in the XII century. But it was known to the Chinese and the Indian ages before. Cp. Chisholme's *Hand-book of Commercial Geography* p. 49. "This instrument" he says, "there can be no doubt, was known to the Chinese at a much earlier date than to Europeans."

†In Britain the insular position and settled kingdom gave a guarantee against military apprehensions. So the railroad followed the track of commerce and ministered to the centres of industry. In America the rail-road followed hard upon the heels of the pioneer and so evolved its own alignment without reference to existing commercial or possible military needs. But in every other country, including our own, the railroad alignment has never been allowed to ignore military requirements. That is some reason why railroads are not quite as productive as they might be.

‡ Chisholme: *Handbook of Commercial Geography*, Introduction XXXIV.

port. Finally—and this consideration must have been well understood in the primitive economy of nomad tribes, though we shall take some time to appreciate it after our airways have fully developed on a commercial scale—the area taken up by the road would be so much deduction from the cultivable soil for the support of population; while the area covered by water being in no case available for cultivation, its use for purposes of transport was no loss to the resources of the community.

CIII. REAL NATURE OF SERVICE PERFORMED BY TRANSPORT FACILITIES.

With this brief review of the origin of transport, we may next proceed to discuss the question, whence arises the present-day importance of transport facilities? What is the service actually rendered by means of transport? Many writers on economics consider transport facilities as an essential element of the economic phenomenon of Exchange which they regard as a branch of production.

> "Analogous in effect to this second class of agricultural improvements are improved means of communication. Good roads are equivalent to good tools. It is of no consequence whether the economy of labour takes place in extracting the produce from the soil, or in conveying it to the place where it is to be consumed. Not to say in addition, that the labour of cultivation itself is diminished by whatever lessens the cost of bringing manure from a distance, or facilitates the many operations of transport from place to place which occur within the bounds of the farm. Railways and canals are virtually a diminution of the cost of production of all things sent to market by them; and literally so of all those, the appliances and aids, for producing which they serve to transmit. By their means land could be cultivated, which could not otherwise have remunerated the cultivators without a rise of price. Improvements in navigation have, with respect to food or materials brought from beyond sea, a corresponding effect."*

Means of transport may be admitted without any difficulty to be an important *aid* in production; but if they are identified with *agents* of production, the process would imply a most serious confusion of thinking. Transport facilities do not produce, even in the sense that the passivity of land or natural forces may be said to produce.† They simply mobilise production, and so distribute it as to employ the agents of production to the best advantage. The best developed means of transport would not add an ounce to the total volume of production, if the original organisation of production omits to make the agents of production function to their maximum efficiency. The British Government in India, for example, were, in their earlier years at least, very much impressed with the problem of famine; and in all honesty and earnestness believed that problem to be soluble simply by developing means of communications. Railways were supposed to cure the inadequacy or failure of rainfall; and so they were pushed irrespective of the cost, and irrespective of the need, to prevent starvation. With 20,000 miles of railroad constructed at feverish haste and ruinous cost in less than 30 years, Lord Curzon's Government found the country in the throes of the greatest famine within historical memory. It was clear the railroad could not be an insurance against a failure of rainfall, let alone a substitute for it. The problem remained a problem of human life. It was, and is, a mistake merely to afford a temporary relief by degrading doles; and think it was a permanent solution of the question of starvation, of the evil of a steadily deteriorating standard of life, of the problem of suitably organised production. It would not avail to bring food to the famished people, if you have not left them the wherewithal to buy it. A policy of loans at interest * to purchase the means of life only intensifies the misery, and perpetuates the economic slavery. By completing the vicious circle, we cannot expect to get out of it; we are much more likely to be more and more involved in it.

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* J. S. Mill *Principles of Political Economy* ch XII § 3 p. 184 Ashley's edition of 1920.

† An analogous popular misapprehension, sometimes incorporated into scientific works, and often confusing the reasoning of many an eminent writer, relates to credit, its nature and functions. Almost every writer of note has declared : credit does not create capital; and yet popular disquisitions, which affect the measures of statesmen more often than they should, regard credit facilities as producing capital. Credit only mobilises capital. It cannot possibly multiply it ; though, by an adequate consideration of industrial and commercial strategy, the mobilisation of capital so as to bring the largest amount of it to bear upon the point of the greatest need often seems like multiplying the amount of capital stock in existence.

But if transport facilities do not produce, they certainly help to make production better distributed. We shall see in the next section of this chapter what exact service is rendered by transport to industry and to commerce. But here we may note that even before (if ever) the population of the world is so redistributed as to make the particular ethnic characteristics of each people correspond to the peculiar physical properties of each region of the earth they respectively inhabit, the properly organised means of transport would enable the hardier peoples of the colder regions to lay out their labour much more economically on material which they themselves do not produce, but which they have the energy, aptitude or accessory to work up. England, for instance, has not sufficient iron ore in native state to keep her steel furnaces going, though she has the coal and the mechanism to make every description of steel work. Without proper, efficient and economical means of transport, the British steel industry would perish. The distribution of the productive forces, and of the producing resources of the world is determined much too much by historical accidents to permit the generalisation that the more efficient organisation of production is entirely a question of transport. But even granting the force of inherited

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* The evil of the Takavi loan is not so much that it is granted so rarely, but rather that it is granted so commercially. With the known demands of the Indian land revenue system, and the unknown havoc of the usurers, the public loans granted on statutory interest, to be exacted with the dead mechanical regularity of the Government, would be only an additional hardship.

prejudice, or instinctive immobility of the agents of production, it may nevertheless be recognised that improved transport facilities go a great way in breaking down such barriers, and redistributing production on more profitable lines.[*] And in thus reorganising productive forces and resources of mankind, efficient transport facilities would promote their own cause. For, Mill has laid down, in the passage already quoted, that improved transport is equivalent to improved tools of production which result in a reduction in the cost of production; though elsewhere the same logical writer has considered the cost of carriage to be the one effective reason why several countries simultaneously produce the same commodity, instead of being content with either to import or export it, as a perfect division of labour and organisation of production would suggest.[†] It may be questioned, indeed, if improved transport really reduces the cost of production; or, at least, whether the producer looks upon the charges of transport as a deduction from his expenses of production. The economy of improved transport lies in promoting a larger scale of productive operations, which, by securing a wider market, are able to realise gains in proportion to which the actual charges of transport, though an addition to the expenses of production, will be insignificant, as the net residue remaining would be much greater.

CIV. REAL NATURE OF SERVICE PERFORMED BY TRANSPORT FACILITIES FOR INDUSTRY AND COMMERCE.

Hitherto, we have spoken of the aid of transport to industry and commerce as though it was the same thing. Yet it is intrinsically different in either case. In the case of industry, transport facilities are like auxiliaries to the battle units of the army and the navy. The fighting strength of the army and the navy depends as much on the strength and equipment of each unit actually sent out into the war zone, as on the organisation and morale of the auxiliaries like medical and nursing corps, commissariat and colliers, troop-trains and transports and reserves. They do not actually fight the battles; but they keep up the strength of the fighters and so help to assure victory. Transport facilities help to provide industry with its raw-material without which no industry would be conceivable, and also the market for the finished goods. In the days before the modern developments in the domain of transport, such a phenomenon, as the textile industry in Manchester getting all its raw-material from the United States, and sending all its finished goods to Egypt, India and the Far East, would be impossible. The rail-roads, the steamers and the motor lorries help these industries, and many others like them, to be established, developed and maintained thousands of miles away alike from the sources of the raw-material and the market for the finished goods. But for the facilities of transport and the diminution of its cost and risk, modern industry would be almost inconceivable. But, at the same time, it ought to be noted that the industry as such may exist in a place, with only its commercial success being improved or guaranteed by transport facilities, though, of course, a long continuance of such an industry without the advantages of modern means of transport would be impossible.

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[*] Cp. Bastable *Theory of International Trade* P. 32-33.

[†] "Cost of carriage has one effect more. But for it every commodity would (if trade be supposed free) be either regularly imported or regularly exported. A country would make nothing for itself which it did not make also for other countries." J. S. Mill op. cit Bk iii ch 18 § 3.

In commerce on the other hand, the place of transport is essentially different. While industry requires transport as an auxiliary, commerce would be simply impossible without modern transport facilities. Transport, in a word, makes commerce. It is the very life-blood of exchange and, therefore, of commerce. We have already noticed in a previous section of this work that all trade consists in exchanging commodities. This exchange, facilitated by division of labour, which, in its turn, is both a cause and consequence of modern industry, cannot possibly take place without transport facilities. Thus, ultimately, both industry and commerce are linked up by means of transport, and the three together make up an economic trinity which fairly challenges comparison with a theological one. It is three in one and one in three. The distinction attempted to be drawn above may, therefore, appear to some as a needless refinement. But its importance is, to me, emphasised by the fact that according as we consider transport primarily as an aid to industry, or as an expect of commerce would, the organisation of these means of transport and their treatment differ. In Germany, for example, before the war, for the purposes of internal commerce at least, an attempt was made to divide traffic between the rail-roads and the canals mostly according to the bulk of the traffic to be carried. The bulkier, heavier and less valuable traffic, like coal, for instance, from Rhineland to Saxony, would be apportioned to the canal; while the richer traffic would be diverted to the railway, by a skillful adjustment of the freight charge so as to fit them for the volume and the value of the traffic carried. The needs of commerce were supposed to be amply served by such an adjustment. If any other considerations were allowed to affect the distribution of inland traffic between the railways and the rivers or canals they were rather financial than economic. * When, however, we

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* See, however, *The Evolution of Modern Germany* by W. H Dawson pp. 216 et seq. He considers the problem of the canal has been complicated by the present desire to levy duties not merely for purposes of a fiscal assistance to a State, but a deliberate economic advantage intended to be granted by Prince Von Bülow's agreement with the agrarian party. In its report on the Canal Bill, the Canal Committee of the Rieschtag observed "the large streams are prejudicial to home agriculture, since they serve as entrance-doors for foreign products, with the result that our protective policy is checkmated." And the leader of the agrarians declared *apropos* of these duties. "I declare quite openly that I hope that the import of corn will be checked by the duties; and by the differentiation of Tariff a means will be found out making it possible for us, corn-growers, to compete on the Rhine." Mr. Dawson, however, opines "nevertheless it is at least possible that agriculture would be the first to lose by the imposition of river duties. For no River Shipping-Company will carry on its trade at a loss, and the first result of duties would be an increase of freights. But it is not inconceivable that home agricultural produce would prove less able to bear higher freights than foreign." Op. cit. page 220.

review the arrangement in the same country as regards the relation of transport to industry and its contact with commerce, particularly foreign commerce, we find a notable difference. Whenever an article of raw material for German industry has to be imported from abroad, or whenever German manufactures are to be exported, traffic rates have been deliberately so framed as to assist German industry by granting specially cheap rates.[*] In either case the effect is similar, the development of German industry and German commerce. But if by industry we mean production in general, and by commerce we mean exchange of commodities, this seeming similarity of consequence would conceal a marked difference in principle. Without the specially preferential rate on transport facilities, the particular industries may not have developed in Germany quite to the same extent; but it is possible to argue that the absence of such transport facilities would not have destroyed or even diminished the total productive capacity of Germany; at most the productive capacity may have been differently organised. On the other hand, commerce would have been impossible in the absence of the transport facilities, which, therefore, mean a difference not merely in degree but also in kind as far as a commercial development is concerned.

CV. ARE TRANSPORT CHARGES A TAX ON INDUSTRY & EXCHANGE ?

We have already quoted J. S. Mill as saying

> "railways and canals are virtually a diminution of the cost of production of all things sent to market by them."

At first blush the observation seems to be paradoxical. The farmer, no less than the manufacturer, regards the charge of transport *as an addition* to, rather than a diminution of, his cost of production. The increase in these rates, whenever it is made for purposes other than the strict economics of transport itself, would, no doubt, appear as an addition, a needless tax upon productive effort which provides its own nemesis[†]—rather than a diminution as Mill argues. The diminution, however, will appear only in so far as transport facilities increase the scale of production, and thereby reduce the expenses of production so that the cost per unit produced becomes very much lower to the entrepreneur; and the addition on this lower cost of the freight charges still makes the total cost *less* than it would have been had production been carried on in the old inefficient way. Hence, if transport charges are not to act as a tax upon production two conditions will have to be fulfilled. Development of transport must improve the organisation, as well as the scale of production; and, on the other hand, actual charges made for the transport service must be framed strictly with reference to the economics of the transport undertaking itself and the ability of the commodity transported to bear the charge. The former will reduce what might be called the first cost, of production; the latter will result in a charge so framed as that its addition will still leave the total cost of the commodity under the previous cost, had production not improved and transport facilities remained more clumsy. Altogether then there is no *a priori* case for a categoric admission of transport facilities as definitely *reducing* the cost of production. The reduction may come;—but only on conditions named above. And lest these conditions are fulfilled, the transport charges would very probably appear in the light of an additional tax in the eyes of the producer.

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[*] See appendix IV of Kirkaldy and Evans *History and Economics of Transport* page 316. The following sentence prefacing a detailed table of rates in Germany is quite significant. "It will be seen that the local rates are 200% higher per kilometre than the preferential rates to the North Sea Ports."

[†] The surcharge on Indian railways or in the Port dues may be instanced as clear examples of the consolidated transport dues definitely acting as a tax, and as such making an addition to the cost of production. The widespread demand in England itself, voiced by no less an authority than Sir Eric Geddes, President of the Federation of British Industries, for a reduction in the railway rates of Britain,—which were raised *ad hoc* on the outbreak of the war and still continue to be from 50 to 75 per cent. above pre war level,—is another instance of the kind.

The case would be somewhat different with regard to mere commerce. As already noticed, transport is the life-blood of commerce; transport actually makes commerce. Anything, therefore, that hinders transport facilities or increases their cost will necessarily appear, to the commercial interest, as distinctive from the productive interest, in the light of a hardship or a tax. Mill's sweeping observation applies only to production, and at that to agricultural production by preference. For, in the passage quoted, he is primarily considering the effect of good roads leading to better markets upon the best farmed land. To exchange or commerce his observation has no reference. This, however, does not mean that transport dues should be utterly abolished in the interest of commerce; though we may say this with Mr. G. D. H. Cole * that the real intention of all these public utilities services would only be accomplished if charges made for service rendered are abolished. There is logic as well as economics in his reasoning that if any bus-fare hinders any section of the population from making use of the service, the object of the service would, to that extent, be defeated. But even if this may be held up as an ideal for public service utilities, we must admit it to be impossible under the present organisation, when these services themselves are conducted as or by profit making corporations. The object of services is obscured by the incident of profit. And so commerce necessarily suffers from a manipulation of transport dues which, however well conceived they may be in the interest of the transport enterprise itself, may quite arguably appear as a hindrance to a free exchange. And the only instance of this peculiarity or phenomenon is that of the shipping freights and the fight centering round the rebate system. As, however, we have elaborated this more fully in the chapters that follow, the point may be left here without further discussion.

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* *The Future of Local Government* by G. D. H. Cole ch. XXI. Mr. Cole thinks primarily of free services only in the case of education and public health and not the transport services here considered. "Under a socialistic system it could always be desirable that, certain services, of which the most important are those of education and public health, should be supplied free of charge, because it is necessary, in the interests of the whole community, to maximise the individual consumption and use of the resources placed by them at the disposal of society". Page 105. But even as regards the other services, like those of transport Mr. Cole seems to accept the ideal of the charges being no greater than the cost price of the same, at least under the existing organisation of unequal distribution.

Chapter XVI.

THE INDIAN RAILWAYS.

CVI. ECONOMICS OF RAILROAD TRANSPORT.

As already remarked in the previous chapter, railways had best been looked upon as important aids or facilities to modern large scale industry and as the very life-blood of modern commerce, both local and international For a variety of reasons,—historical accidents all of them,—they have come to be regarded and worked on lines entirely inconsistent with their real place in the scheme of a people's public economy. When they were started in England, they were looked upon as a new species of roads, which, being constructed, anybody could use them, on payment of a given charge, as he would use any other highway, i. e., with his own vehicle, his own hauling power, his own terminals &c. * But even so, the roadbed and its necessary equipment cost sufficiently large to demand a special remuneration. And when the peculiar character of the railroad transportation was fully realised; when the need for standardisation of equipment and the monopoly of service was understood, the consolidated charge for the use of the road-bed, the loan of the haulage power, the provision of the vehicle, the service of the stations, sheds, sidings, warehousing, collecting and delivery, insurance and safe-keeping, came to be evolved and constructed on a basis which had a most distant effinity, if at all, with the primary idea of the place of transport facilities as an aid to industry The railways came to be considered as an industry—or at least an enterprise—by themselves, whose only measure of success was to be found in their ability to earn a profit for their entrepreneur. Whether railways rendered the service they were meant to in the domain of the community's industry and commerce became entirely a secondary question, if it ever was considered at all, at least in those communities where the people collectively had parted with the right to conduct and regulate these national arteries. † And even where governments retained the ownership and managed the railways as a public concern, their object more often than not has been rather the mili-

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* "The original idea of a railway was that it would be a specialist sort of road along which traders would be allowed to have their own vehicles, as they had done in the case of the existing canals on payment of a toll x x x x x. The companies were originally intended to be merely the owners of the road-bed and all other equipment for working which was thought necessary in those days." Kirkaldy and Evans. Op. cit. p. 105.

†It is worth remarking that while the roads, whether constructed by the Cæsars or the Mughals or Napoleon, were all state concerns and public property, the railways were almost from their origin considered to be best operated by private entrepreneurs. Prussia is an honourable exception which only points more fully the moral of the rule. The slight powers of control &c. reserved by the legislature are hardly equal to an effective manipulation of these means of transport to attain a definite national goal; and in practice they do not amount to anything at all.

tary security or superiority of the community than its industrial efficiency and commercial progress by a careful manipulation of the railroad charges. Profitability in an ordinary balance sheet may, indeed, serve as an excellent barometer for the success of the enterprise; but if it is made the sole test of the adequacy or suitability of the work performed, the idea of the service expected from these means would be lost sight of altogether. And military considerations, however germane to national security, are alien to the index of service really rendered by a railroad to a people's industry and commerce. For, it may be purely an accident that the Franco-German frontier runs through a region, which has become one of the greatest centres of modern industry; and so the railways on either bank of the Rhine are an immense service. There is nothing to prevent a frontier as such from being as barren as our own North-Western border region, and yet demanding, for military reasons, railroad construction of the most expensive kind. *

Considerations other than those simply of service to the industry and commerce have thus dominated this form of transport almost from its very origin. And so in the framing of its charges ideals have been held in view which still further deflect the enterprise from its right and natural aim. Railway charges are made to cover the cost of the enterprise and render a profit to the entrepreneur—whether private or public. In the latter instance, the measure of deflection becomes, paradoxically enough, complete. For, the private entrepreneur, even while most intent on profit hunting from the enterprise, is compelled, by the sheer dread of losing his clientèle or giving rise to effective competition, to maintain the highest efficiency he possibly can. There is thus some corelation between the service rendered and the charge made. It is, as near as may be under the circumstances, a price under monopoly conditions, subject, however, to the dread of calling out effective competition. In the case of public enterprise, however, the rail-roads, with guaranteed monopoly, are either conducted with culpable extravagance, † or equally objectionable penuriousness. If the State has become dependent upon the railway surplus for any considerable proportion of its revenues, it would refuse to introduce those necessary reforms in the equipment and administration of the rail-road enterprise, which the progress in science may have evolved, and which considerations of safety or efficiency have demanded, but which reasons of revenue refuse to effect. Electrification of rail-roads is an instance in point, on a large

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* Among the specific and positive evils, from this point of view, caused by nationalist considerations or military reasons, are break of gauges preventing the best economy being attained in railway working; and railway alignment through regions not quite suited to commerce. *e. g.* the old Moscow-Petersburg line, which is said to have been planned by the then Tzar drawing with a ruler a straight line on the map between the two points. It was the shortest distance but the most uneconomic.

† As an illustration, see the Report of the *Indian Retrenchment Committee* dealing with the Railways and Post Office. The statistics relating to coal consumption are most illuminating.

scale. The Prussian state railways were once upon a time the wonder of the world for the comfort, efficiency and economy of the service. But even before the war they had fallen into the background; owing to railway surplus being impossible to be devoted to railway improvements for purely fiscal reasons.* State enterprise in railways, instead of helping to maintain the ideal of all means of transport as subservient to local industry and commerce, has quite unexpectedly and unfortunately acted as a means of heavy, indirect, and unprofitable taxation. Revenue considerations in regulating railroad operation may be unavoidable; and, within their limits, they may even be welcome, if only as serving to conduct economically an enterprise which has such enormous possibility for waste. But when revenue considerations influence and determine railroad policy so as to frame charges that could have no possible relation to the service rendered, they must be condemned as bad politics and worse finance.†

The railway charges are thus drifting far away from the real object of these new means of transport. Whether framed just to cover the cost of operation, or to yield a surplus to the private or public entrepreneur, they would in each case fail to meet the requirements solely to minister to the industrial and commercial needs.

> "There has always been, amongst the advocates of the extension of public ownership in the sphere of industries and services, a strong objection to the conduct of such services by public authorities on a revenue producing basis. Industries and services conducted by public authorities, it has been urged, ought to serve the public at cost price or less. It may be desirable to provide certain services and even certain commodities for a charge which is less than cost price; but only in very exceptional cases can it, according to the accepted theory of the advocates of public enterprise, be desirable to charge for a commodity more than it actually costs to produce or, for a service, more than the actual cost of rendering it." ‡

For every charge would act as a *pro tanto* deterrent to the aim intended to be accomplished by the service. Except in cases, like the public monopoly of opium, where the price calculation is governed more by social and ethical than by purely economic considerations, the charges for a public services utility must never exceed the cost of rendering it. Even the remuneration of the cost actually incurred may be deterrent; but it may be accepted that under our existing defectiveo rganisation this is an unavoidable evil. The utmost we can do is to eliminate the element of profiteering from public services. For that would be a needless tax.

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* "Financially the results (of German railways) were described as magnificent. The gross working profits had risen from 222,000,000 marks in 1883 to 548,000,000 in 1908, and after payment of maintenance and preservation expenses out of revenue, a total of nearly 3,000,000,000 marks out of the surpluses had been placed at the disposal of the State for other purposes." Kirkaldy and Evans op. cit. p. 190. The total surplus since nationalisation till 1908 was 12,000 million marks or £ 600 million.

† As an illustration, we might mention the ad hoc rise in railway rates and fares by 25 per cent. in the Indian Budget of 1922-23 merely to cover a part of that year's deficit. As traffic actually fell, the expectations of increased revenue were sadly disappointed.

‡ G. D. H. Cole *The Future of Local Government* p. [illegible]03.

This argument may be reinforced by two independent considerations. Adjuncts or aids to industry like means of transport are not by themselves directly productive of any utility. They only add to the exchange value of a commodity by helping the better to adjust demand and supply. Under the circumstances, there cannot possibly be any direct corelation between the effort to produce the service and the utility derived from its consumption. In other words, the measurement, in concrete terms of prices, of the utility of the service to the customer of the railroad by its corelation to the cost incurred by the railway entrepreneur in rendering it, is almost impossible.[*] The customer has to face on the one hand a more or less complete monopolist. He can, besides, only look upon the cost of transport to him, in relation to the ultimate price of his wares in the final market. The railroad authorities cannot, as we shall see more fully below, determine exactly the actual cost for carrying any specific consignment. They have to figure out their cost after taking into account a vast number of items—both of capital and revenue character; and the rough average obtained by this method might give a charge for a particular service that may have absolutely no corelation to the actual utility to the consumer of that service. The result is a perennial divergence of interests, not only between the railway authorities and their immediate public; but also between railway management and the aims of national economy. The former is evidenced by a constant series of disputes between the railroads and the consigners, the latter is not so obvious. But when we find the railways, in their search for profit, suppressing cheaper alternative means of transport, as the canals in England; when we find them quoting rates for the inward and outward traffic, which, as in India, help, designedly or otherwise, the industry of the country even while they seem to be promoting its foreign trade; when we find them so arranging the course of trade as to extinguish all smaller centres of industry and trade in favour of a few mammoth sized towns, we cannot but note the unsatisfactory nature of the effort to corelate the charges with the service.

CVII. SOME PECULIARITIES IN RAILROAD ENTERPRISE.

The origin of this dissatisfaction may, perhaps, best be sought in some peculiar characteristics of the railway enterprise. It must necessarily be on so vast a scale that, without some kind of a monopoly, it could probably never be operated successfully at all. But, being a practical monopoly, those responsible for its financial success are relatively indifferent to securing all possible economics in the internal operation of the enterprise, and so are impelled to make charges that unavoidably contain an element of profiteering. * On the other hand, the railroad construction involves a very considerable outlay of capital, which must be remunerated, if the undertaking is at all to succeed. And, in return for this capital outlay, the assets obtained are so highly specialised for use only on a given purpose, that they are utterly useless for any other purpose. As Sir Wm. Acworth puts it:—

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[*] A former Finance Minister of India, Sir John Strachey, tried to prove the utility of the railways by pointing to the difference in cost of transport by carts and by railways. Besides the inherent weakness of all concrete arguments like these based on the theory of Marginal Utility, it has the further weakness of inviting the retort that the saving to the public would have been much greater, if, instead of the costlier railroad, the cheaper canal had been developed at perhaps a tenth of the capital spent on the railways. Does this justify the conclusion that the Indian people have "lost" all the money that could have been saved had there been navigation canals?

> "If the railway that results from all this expenditure is not useful as a railway, it is useful for nothing else. It represents sheer waste of capital, a well sunk without finding water, a ship built and fitted that will not float. The embankments and cuttings, the tunnels and viaducts, the bridges and platforms, the culverts and ballast, are all fixed to the spot for ever. If the railway is a failure, they can neither serve any other purpose where they are, nor be taken up and employed elsewhere." †

But the whole of this highly specialised capital, containing perhaps a very considerable element of avoidable inflation, will demand a return from the service to be rendered. The capital must be spent in the hope that business will result, whether or not in actual fact business does follow. It is true a railroad, once constructed and equipped, would cost proportionately little to work; or, at best, to maintain the assets that represent capital outlay. But the ability of that enterprise to earn a return for this capital depends on the condition—for a railroad a most difficult condition—that the entire road, stock and works be kept fully occupied. For climatic reasons alone, such a condition is often impossible to meet, in regions liable to be snow-bound or exposed to floods. However economically a line may be constructed, allowance must be made for the fact that the whole capital cannot always be fully occupied. The force of this point would be the clearer, if we consider those subsequent improvements, which must be made if traffic is to be increased; but which must necessarily lie idle for a long time until at least traffic has increased to the maximum capacity of the improvements. ‡ There is an advantage for the railway in this hardship. It is an enterprise, peculiarly amenable to what in economic

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* To give some idea of the immense capital sums invested in railway enterprise in the principal countries take the following figures of the cost per mile.

The U. K.	£ 55,712	Netherlands	£ 17,350
Germany	" 22,821	Denmark	" 10,884
France	" 28,611	U. S. A.	" 15,071
Belgium	" 37,088	Canada	" 12,022

History of Inland Transport by E. A. Pratt quoted in Kirkaldy and Evans. Op. cit. p. 142. The figures are relatively worthless, since in the same work the unit cost per mile is given at £ 21,000 (or £ 26,000) for Great Britain according to another competent authority. Of course, a good deal of this capital is sheer "watering." Cp. Acworth, *Elements of Railway Economics*. p. 11.

† Op. cit p. 12.

‡ The quadrupling of the G. I. P Railway in India may be cited as an example; or, still more generally, the electrification of a part of the lines for suburban traffic in great centres of population.

theory is known as the law of Increasing Returns; i. e. as the traffic increases, the volume of earnings will also increase, while the proportion of expenses will actually fall. But even if the expenses maintain the same proportion to the current expenditure under high, as under low, traffic, the capital remaining stationary, would give a steadily larger return from the increased earnings. Whether the extra return is dissipated in increased dividend, or employed in consolidating the railway's position with its customers by guaranteeing against an increase of charges, will of course depend upon the business foresight and acumen of its directors. * Finally, the specialised capital outlay only applies to the road. It is irrespective of traffic. But the provision of rolling stock on the railway need only be commensurate with the maximum of current requirements,—the increase in traffic being met as it takes place by increased outlay on the rolling stock &c.

CVIII. SOME CONSIDERATIONS IN RAILWAY RATE-MAKING.

Railway charges, and particularly those for the transport of goods, have to be evolved as a kind of resultant from the parallelogram of forces. Considerations of remuneration to the body starting and working the railroad have to be reconciled with considerations of utility to the customer. Without allowing our study to be distracted by a consideration of that extreme abuse of railway facilities; which, in America, at least, has resulted in frequent complaints of one-sided development and a discriminating attention, † it may be noted that the traffic-attracting side of rate-making is at least as important as the profit-earning side. Among the practical maxims of rate-making, enunciated by the best known English authority on the subject, are :—

> "I. Get traffic. The more traffic carried, the less it costs to carry. Therefore, first and foremost, get traffic.
>
> II. Charge no rate so high as to stop the traffic from going; subject to
>
> III. That no rate shall be so low as not to cover the additional cost-incurred by the railway in dealing with the traffic to which the rate applies."‡

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* This argument is summarised from Acworth, op. cit. He draws, however, two practical conclusions from it : A (1) light railway had best be constructed by the main lines which it is going to feed. This is sound practical advice on the assumption that the contsruction and extension of railroads is governed exclusively by commercial considerations. It may not be so in fact. (2) Light railways ought to be free to charge the rates and fares they find remunerative. This is a bit confusing the issues, since the advice would be sound only on the assumption that they are independent lines. If they are to be viewed as ancillaries to main lines, they must be viewed only as part of a larger venture; and their charges would thus necessarily follow the general policy of the main line. In the hope of fully developing the possibilities of such ancillaries, a main line would for a while sacrifice a part of its earnings from other traffic in order to keep the charges low enough to build up business on its new venture.

† See *inter alia* Ripley's *Railroad Problems*. The railroad discrimination has been among the most potent factors for the building up of the Trust, and all the abuse that form of business organisation entails.

‡ Acworth, *The Elements of Railway of Economics*. p. 71.

But what is the additional cost to the railway for the carriage of any specific consignment? If considerations of cost are to predominate, and each rate is framed at least to recover the special extra cost of carrying a particular load, to a naturally loaded train, there will scarcely be any extra charge for carrying say 2 maunds more. And yet it must be charged for. The principle of charging at least enough to cover the extra cost could work in practice only if and where it is passed to divide up the organised business of carrying, as to give to each the fullest possible load, for the longest possible through journey. But where, as in India, the economic organisation of the community is such as to render 'the spectacle of large, regular, through trainloads of single consignments next to impossible; where, therefore, a considerable amount of the rolling stock would have to remain idle simply because of the necessity of frequent halts, long waits, and numerous collections of petty consignments in order to make up an economic trainload; and where, in consequence, a considerable outlay would have to be incurred by way of wages and stations, sidings, sheds or warehouses to accommodate the goods while waiting collection, the charges, if framed in reference to the recoupment of the expense incurred, would not only involve a most invidious discrimination in favour of heavy, regular through consigners, but would also appear disastrously onerous to the relatively small trader or producer. If all the railway expenditure, including the interest on capital invested, is to be recovered, has to be recovered, proportionately, of course, from each rate charged, the rate would be so excessive that the consigner would have on his side more than sentiment or justice in urging that a great deal of the expenditure must be incurred by the railway whether or not his particular consignment was carried. There is a good deal of reason in the question: why charge me for what I don't cost you? As Sir Wm.-Acworth himself says in another connection, but on the same topic:

> "It is simpler to say at this point that such a basis is impossible, as no one knows or can know what the cost of carriage is. To begin with, the phrase itself is ambiguous. Cost of carriage of a particular item may mean 'the additional cost of carrying that item: this is normally so small as to be negligible." *

At most, the second and the third of the maxims for rate-making in practice may be regarded as fixing the maximum and minimum limit of railway charges, subject to the condition that the exact ascertainment of those limits is out of the question, and that even if ascertained in a rough and ready way there would be found to be a very considerable difference between the two limits, within which, therefore, will necessarily remain a large field for discretion to the rate-making authority that may make or mar the industry or commerce of a country.

Perhaps a better general principle for guidance in rate-making would be found in the maxim that the rates collectively must be such as to recoup collectively from the entire traffic the total expenses of rendering the

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* Op. cit. p. 52.

service. This is, however, even less precise than the former alternatives. The real problem of rate-making lies in distributing the total charge of providing the service on the individual items that avail themselves of it. Leaving aside the interplay of social, economic and political forces involved in each particular rate, and confining our attention only to an objective basis for such rates, the greatest practical difficulty in the way of finding such a basis lies in the fact that railway rates have to be fixed in advance of the traffic, and the consequent impossibility in ascertaining the cost even approximately? The cost would vary very largely with traffic; and the rate fixed in advance may be onerous to the consumer, or to the producer, according as the traffic is larger or smaller than the anticipation at the time of fixing the rates. It would thus be more conducive to real economy and justice if the fixing of railway rates is coupled with a sort of sliding scale arrangement automatically varying the rate in accordance with the realised volume of traffic; * or at least with a machinery for regular or frequent revisions of rates that might appear to be disproportionate to the volume of traffic actually carried, subject, if need be, to predetermined maximum and minimum limits.

It is no short-cut to equity in rate-making to suggest uniform mileage rates, though railway rate-reformers have often required the principle. At first sight there is an alluring simplicity in the idea which naturally commends itself to the ardent reformer; and were the charges of rendering the service quite as slight and as simple as those involved in a post office, perhaps the principle would not be quite impracticable. But the cost of construction, equipment and operation per mile in the different sections of a large railway system is not at all the same; nor would rate-making on such a basis be quite in the interests of the consumers of the service if railway companies are not allowed to spread out and average the expenses in their hunt for an equitable rate in each case. The equal mileage rate principle would prove acceptable only if at all under these conditions:

> "That subject to a fixed minimum roughly equivalent to the extra cost incurred in carrying a consignment, the railway systems be split up into zones or sections with more or less similar cost of construction and equipment; and that within each of such zones or section equal mileage rates may be charged, on the different categories of goods differently." †

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* This arrangement may, however, prove burdensome in the case of traffic subject to periodic ebb and flow.

† This is by way of a compliment to the arguments of Sir Wm. Acworth (Op. cit. p. 55-56) who does not seem to me to have made any allowance for the possibility here suggested. If the frequent complaints of unfair discrimination in rate-making against railways are at all to be obviated, I see no alternative but some such objective basis as the above for uniform equitable treatment. Sir William himself later on seems to support the plea, when he, arguing against the analogy of postal rates, says:—

"*Prima facie*, and other things being equal, a tariff ought to be based on mileage, and the more accurately it is so based, the fairer it is both to the railway and to its customers."

I have not even considered the alternative offered by the postal analogy, as, I think, it is self-evident that the postal analogy cannot be admitted in railway rate-making for theoretical as well as practical reasons.

Even so there would be only a rough approximation in practice to equity in transport, especially if the double and mutually inconsistent ideal of indemnity to the railway entrepreneur and utility to the railway customer are sought to be realised simultaneously. The Railway companies—or authorities—may quite very well be induced to make special charges in given cases for national, or even for the narrower reasons of their own economy, which might be well below the cost of rendering the service; but they would try and indemnify themselves by correspondingly higher rates on other traffic for which no such overwhelming reasons of national or economic importance could be quoted to make the railways charge a specially low rate.

And this brings us to the real principle now in use in practical rate making on all railways, in one form or another. As its name implies, **charging what the traffic can bear**, is not really a principle but the negation of all principles in rate-making. It is at best an excellent rule of thumb, which makes an implicit confession of the futility to find any reasonable maxim for rate-charging. The railway manager entrusted with rate-making has to consider all the costs, fixed as well as recurring, or general and particular, of his enterprise; but for the greater part he lacks reliable data to work up this basis. He has also to consider the amount of advantage derived by the customer in seeking the railway service, and quote a rate, which will not only bring but retain and increase the profit on the railway. In so far as he has an effective monopoly, he is spared the need to consider at what level the charge would be so high as to deter traffic, and reduce earnings for the railway. Just as certain costs are fixed and must be reckoned in the basis of rate-making, so too a certain volume of business may be taken as practically certain to come to the railway, working under monopoly conditions. It is possible, indeed, and the railway manager cannot be warned too seriously against the mistake that even in the best secured monopoly, an incessant policy of indiscriminate rate-screwing would only result in killing the goose that lays the golden egg. * And in places where there is no monopoly of carriage for the railway; where road or the river or the open sea gives an effective alternative, the rate-maker on the railway must always be on his guard against framing rates that may take off any section of traffic from the railroad. It is under these conditions of constant competition that the railroad manager has the best field for his genius; for no cut and dried principle would avail him. It is under such circumstances that the negation of all principle in rate-making has to be evolved, and traffic be charged simply according to its capacity to pay. Each lot of goods to be carried may be charged, within the maxima and minima framed so as to afford a very considerable margin, solely with reference to its own individual capacity. Translated in Railway language it means:—

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* cp. The experience of the Indian Railways, which have the most effective monopoly of traffic in the world, during the last two or three years. Rates and fares have been increased by 25 and 50 per cent. in the last two or three years; and yet earnings have actually fallen.

> "The total railway revenue is made up of rates, which in the case of traffic unable to bear a high rate, are so low as to cover hardly more than actual out-of-pocket expenses; which, in the case of medium class traffic, cover both out-of-pocket expenses and a proportionate part of the unapportioned cost; and which, finally, in the case of high class traffic, after covering that traffic's own out-of-pocket expenses, leaves a large and disproportionate surplus available as a contribution towards the unapportioned expenses of the low class traffic, which such traffic itself could not afford to bear."*

The carriage of first-class passengers in *Train de Luxe*, with pullman bogeys for parlour and dining and sleeping purposes extra, and that of the specially low workmen's tickets by a given number of trains or excursion traffic may be cited as examples in point in regard to the passenger traffic; and the carriage of gold or race-horses and coal, lime, manure in the case of goods traffic. Presented thus, the railway rate-making frankly, according to the capacity of the traffic to bear the charge, seems not an engine of extortion for the benefit of the railways, but a means of practical equity in rate-making. It is Adam Smith's first principle of taxation, modernised to suit railway economics. It is in fine characteristic of all large scale modern business where neither the cost of production, nor the utility to the consumer, is a readily ascertainable factor for providing an objective basis to formulate the price.

CIX. RAILWAYS IN INDIA, THEIR RELATION TO THE INDUSTRY AND COMMERCE IN THE COUNTRY.

A great deal has of late been said about the finances and management of the Indian railways, so that it is unnecessary for us to dilate upon that aspect of the question at any great length. † Suffice it to say that for a total capital expenditure of Rs. 6,45,07,00,000 upto 31st March 1922, we have got some 37,000 odd miles of railroad and appurtenances in the matter of rolling stock and buildings. ‡ This gives an outlay per mile of some

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* Acworth op. cit. p. 77.

† There is quite a voluminous official literature in connection with the Indian railways beginning with the justly celebrated minute of Lord Dalhousie at the inception of the system, and ending with the Report of the Acworth Committee in 1921, for the present, besides the annual administration reports and passages in the Legislative proceedings' volumes pertaining to the Railways. There is in addition a number of useful monographs, like that of Mr. S. C. Ghose on *Indian Railway Rates* or the one on *Indian Railways* by R. S. Chandrika Prasad. All this material has been drawn upon in the following pages.

‡ These figures are taken from the *Inchcape Report*, Pt. II para 2, p. 60. They do not agree with the *Railway Administration* Report for 1921-22 which says:—

"The total capital expenditure incurred on the construction of all railways in India upto the end of 31st March 1922 amounted to Rs. 656·06 crores." The capital at charge is, indeed, easily distinguishable from the total capital outlay; but when figures relating to the same category differ so materially there is obviously a great need for an explanation.

Rs. 1,77,313; *without* including the cost of land, and the preliminary charges which in England is estimated to amount to £ 4000 per mile.[*] Assuming that the value of the land given free to the railways is about equal to the amount of rolling stock, it may be held that the cost of constructing a mile of railroad is £ 11800,—a very high figure in view of the poverty of the trade and industries in the country.[†] In part, if not in its entirety, this was due to the system of guarantees adopted in the earlier railway construction in India; for, thanks to a guaranteed certainty of return, the companies by whose agency the main lines were constructed, were entirely indifferent to securing such economies as could possibly be realised by diligent management.[‡] The alignment, the road-bed and railmaterial as well as rolling stock were provided on a scale wholly at variance with the requirements of India. This absence of economy in planning and construction from the outset necessarily inflated costs of working which has made the Indian railway far from a boon to the people. Besides this initial defect of a purely financial kind, there was another, equally important defect, from the stand-point of national economy in the wider sense, which has disfigured railway enterprise in India from the beginning. The Railways have never been planned or carried out wholly by commercial considerations. From the days of Dalhousie, who, in his celebrated minute which laid the foundation of railway enterprise in India, to the latest quinquennial programme, the military or strategic has had at least an equal say with the commercial or economic considerations in the layout of Indian railways, not only on the frankly military ventures of frontier lines, but also in the principal arteries of communications within the country. And where military reasons did not obtrude themselves, those of famine relief i.e., carriage of food-stuffs to the suffering people, were held to be equally decisive in favour of railway construction, whatever the traffic possibilities in normal times might be on such lines.[§] Suggestion has, indeed, of late, been made for the separation of the purely military or frontier railways from the ordinary commercial ones; but, while supporting the idea on political grounds of exhibiting the military charges in their real proportions, one cannot lose sight of the fact that by this expedient the real position of the general railway enterprise of the country cannot possibly be improved.* There is a danger, in fact, lest the exclusion of the military railways from the general view of the Indian railways might induce the belief that the enterprise was more profitable than it actually is, and that accordingly its extension may be justified. Much the same thing might be said of the latter-day mania of quinquennial programmes for railway construction *en bloc.* Apart from the constitutional objection of voting a five years' non-lapseable grant, by a body which has its own life limited only to three years, and which cannot, therefore, presume to tie down its successor to such an uneconomic programme; there is the further objection that such votes presume an infinite capacity for railway extension which could only be justified, if at all, by the most indisputable proof of the need as well as of the commercial possibilities of the railways projected afresh, or improved on the existing lines. According to the information submitted to the Indian Retrenchment Committee, the proposed programme of spending 150 crores on capital expenditure in five years, is so distributed that:—

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[*] Figures about the average cost per mile of construction are most difficult to compile. See the figures cited in Kirkaldy and Evans p. 149. op. cit.

[†] Cp. Acworth op. cit.

[‡] Rai saheb Chandrika Prasad in his work on *Indian Railways* calculates the loss borne by India on account of the old guaranteed railways, including compound interest at 4. p. c. per annum, to the end of 1919–20, *at Rs* 346·06 *crores.* See Appendix 3 a op. cit. I think his procedure is quite sound; and the loss so calculated should be added to the total monies hitherto spent on the Railways in India before the profitability of this enterprise could be calculated.

[§] "Not all the railways of India have been constructed wisely or even economically. The North West Frontier Railway was for a long time a white elephant.........The much desired direct broad gauge connection between Karachi and Delhi–whatever its political expediency might be, is likely to be a source of considerable loss, running as it must be through the desert tracts of Rajputana. The Railway through the Khajak and Bolan passes has been constructed at such a heavy cost, that the critic might well say the whole line has been ballasted with rupees." op. *Sixty years of Indian Finance* p. 315 et seq.

"A very substantial proportion of this capital has been allocated to unremunerative lines as appears from the following statement:—

Railway.	Proposed Allocation.	Loss on working after paying interest & sinking fund charges.	
		1922-23 Revised Estimates.	1923-24 Preliminary Estimates.
	Rs.	Rs.	Rs.
North-Western.	17,53,00,000	2,53,98,000	1,96,95,000
Oudh & Rohilkhand.	6,50,00,000	24,72,000	10,25,000
Eastern Bengal.	6,50,00,000	61,95,000	58,72,000
Great Indian Peninsula.	20,83,00,000	89,40,000	62,28,000
Madras and Southern Mahratta.	10,00,00,000	3,41,000	79,84,000
Other Railways.	5,56,00,000	10,12,000	88,35,000"

and the same authority goes on to observe:—

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* Says a Resolution of the 13th February, 1922 of the Council of State:—

"The Council recommends to the Governor-General in Council that in future a separate revenue and expenditure account should be kept of the working of the military strategic lines; that the losses connected with the working of these railways should be debited and the profits, if any, credited to the Military Department, and that the capital outlay on new lines or works of this nature should be debited to military accounts." According to the Administration Report on Indian Railways for 1921-22, there were in all 1773·74 miles of railway in India which could be regarded as at all as strategic lines out of a total railway mileage of some 37500 miles. But Government have accepted only the first part of the resolution, and negatived the others. But out of a total loss on railways aggregating 9·53 crores in 1921-22, the North West Frontier line alone accounted for Rs. 405 crores.

† Para 31. Indian Retrenchment Committee Report Part II.

"We are informed that there are many remunerative schemes such as the opening up of lines for the development of mineral resources, the electrification of suburban lines, etc. which at present cannot be taken up owing to the difficulty of obtaining capital. This being so, we cannot believe that it is legitimate under any circumstances to put Rs. 67 crores of capital, borrowed at a high rate of interest, into lines which are already a heavy drain on the resources of the state, and we recommend that, except in case of commitments already entered upon, no further capital expenditure be incurred on these lines until the whole position has been examined by the Financial Adviser and reveiwed by the Government. If the full amount of the capital cannot immediately be employed on remunerative works on open lines, it would, in our opinion, be a matter for consideration whether some portion of it could not with some advantage be devoted to the construction of new lines promising an adequate return."

Starting with an initially overweighted capital burden, it is no surprise to find the Indian railways having financial results not at all comparable to what could be expected of them. The Retrenchment Committee have prescribed an ideal of 5½ per cent. net return, whereas the present position of the railways generally is an unmitigated loss.* The comparison of working expenses to gross earnings is misleadingly simple from the point of view of showing the real financial position. But overlooking, for the sake of simplicity in the present argument, the fact of bad account-keeping in the presentment of railway position, we may next note the fact that the expenses of operating are also disastrously high. The following detailed table analysing the Working Expenses gives not only the rapid increase in recent years, but also shows the uneconomic ways in which railways are operated in India. *

	1913-14, Actuals.	1922-23, Budget estimate.	Percentage increase.
	Rs.	Rs.	
Maintenance of Way, Works and Stations	6,32,02,000	14,59,53,000	131
Locomotive expenses	10,23,68,000	23,07,63,000	125
Carriage and Wagon expenses	2,71,14,000	9,09,12,000	235
Traffic expenses	4,88,57,000	9,64,03,000	97
General charges	2,26,70,000	4,23,11,000	87
Steam boat services	20,41,000	25,94,000	27
Special and Miscellaneous expenditure	1,79,04,000	4,22,02,000	136
Other items	14,43,000	—4,80,000	...
Total 10 principal railways	28,28,13,000	65,06,58,000	130
Other railways	1,06,89,000	2,92,42,000	173
Total all railways	29,35,02,000	67,99,00,000	131

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* It is worth noting in passing that even when the railways were supposed to be profitable concern giving net receipts in excess of the working expenses as well as the

In every instance in the above main headings of the railway working expenses, the Retrenchment Committee has declared its dissatisfaction and suggested economics. While the unit cost has in every case increased, the utility derived from each outlay—or the efficiency of the service—has actually diminished. Take the following figures, given by the same authority, as an illustration, as to the average cost of repairs to engines &c. and the average miles run by each engine.

		Cost		Miles run	
		1913-14	1922-23	1913-14	19-22-23
North Western ...	... Rs.	2,532	8,686	20,990	16,041
Oudh & Rohilkhand ...	"	2,743	6,753	26,120	21,260
Bengal Nagpur ...	... "	3,608	5,620	28,025	23,285
East Indian	... "	2,874	6,905	28,410	26,677
Great Indian Peninsula ...	"	3,779	9,854	23,794	20,412

This table shows clearly not only that there is no attempt at all at anything like similar work being obtained from the locomotives—and wagons as well for the matter of that, — but that the cost of maintenance increases even while the efficiency diminishes. The same is evidenced in regard to fuel consumption per 1000 gross ton miles worked, which has uniformly increased, though "these large modern engines are generally fitted with super-heaters and other improvements which very materially reduce coal consumption." Instead it is increasing by nearly 20 per cent whereas the increase in mileage run is 12 per cent on the broad gauge lines, and 4 per cent on the metre gauge lines. "With regard to goods stock (of wagons), the maximum tonnage conveyed in any year subsequent to 1913-14 was only 8·8 per cent. in excess of the tonnage conveyed in that year whereas the stock of wagons has increased by 21 per cent" † After a detailed review of all this expenditure, as well as the extra items of provision for depreciation, it is not surprising that the Indian Retrenchment Committee comes to the following conclusions:—

(continued from P. 23)

Interest and Sinking Fund charges combined, the net return was obtained by making no provision for depreciation whatsoever. Says Chandrika Prasad: "In declaring surplus profits on the railways, especially during recent years, 'the ordinary commercial principle of allowing for depreciation on stock has not been applied." Op cit. p. 43. The Inchcape Committee reports in the same sense: "We......are of opinion that each railway should make adequate provision every year for the maintenance and renewal of its permanent way and rolling stock. The funds so earmarked should be debited to working expenses, and carried to a suspense account which could be drawn on as necessary to meet current requirements, any unspent balance being carried forward from year to year. Unless some such arrangements are adopted and strictly adhered to, it will not, in our opinion, be possible to say whether the railways are earning an adequate return on the capital outlay, and there will be no effective check on ordinary working expenditure."

* *Indian Retrenchment Committee Report*, Pt. II para 11, p. 65.

† Op. cit p. 69,

> "We are of opinion that the country cannot afford to subsidise the railways and that steps be taken to curtail working expenses as necessary in order to ensure that not only the railways as a whole be on a self-supporting basis, but that an adequate return should be obtained for the large capital expenditure which has been incurred by the state. We consider that, with economic working, it should be possible for the railways in India to earn sufficient net returns to yield an average return of at least 5½ per cent. on the total capital at charge. x x x x x The real question to be decided is whether, when capital is so urgently required by some railways for remunerative purposes, the country can afford to borrow large sums of money at the present high rates on railways, which are not only unable to earn 5 per cent. on their present capital but which have to be subsidised by the general payer. We consider that further expenditure on such railways can only be justified if it can be satisfactorily demonstrated that their expenditure will increase the net earnings of the railway sufficiently to cover the additional interest involved."*

This conclusion is excellent as far as it goes. Stress of logic alone compels the Committee to advise against that programme of extension to which the country has been committed, as Rome to Cæsar's trans-Alpine Consulship, for five year's running. But it does not seem to have realised the fundamental weakness of all railway enterprise in India. This enterprise is essentially one, which, in the technical language of the economic science, may be described as one following the law of increasing returns. The larger the scale on which it is operated, the greater the return it would yield. But India is essentially a country of small traders. Her traffic is yet largely for short hauls, and in small consignment. No statistics are available—because none seem to be compiled—to show what an average haul and an average consignment is like in India. But there will be no violence done to our reason, if we assume that in view of the known conditions of economic organisation in India, the Indian hauls and Indian loads cannot possibly compare in magnitude with the British or American loads. And a large scale enterprise, even when it is most economically conducted, must work at a loss if the normal scale business it must have is not forthcoming. The Indian railways have been and are worked on lines anything but economic. And, as we shall see more specifically later on, their rates and charges have never been framed with a view to attract and foster traffic within the country. They have thus lacked even that bare minimum of traffic which alone could have guaranteed them a reasonable commercial success. This may in part be explained by the conglomeration of motives that have gone to make the Indian railways. But, on the whole, one is forced to conclude that the Indian railways have not proved a commercial success, because they were built at a time when India had not got the traffic to make these new means of transport a success, which could not quite fit in with the existing economic organisation. Summing up the economic effects of railways in India, we may repeat Mr Chandrika Prasad's observations:—

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* *Indian Retrenchment Committee Report*, pt. II paras 5-6 p. 61-62. This conclusion by a once inveterate supporter of a blind increase of railways in India, like Lord Inchcape, or Sir J. Mackay, as he then was, is doubly significant in showing that the railways have not proved the success they were expected to.

> "By the opening up of the through communications with other countries, India has been invaded with foreign manufactures, which have destroyed most of the indigenous industries of India, and thrown a large number of persons out of their work. Some of the railways were provided specially to protect Indians from the effects of famines x x x x x x The object has been achieved, but the export of foodgrains and raw materials to foreign countries, and the fact of India coming directly under world influences, by the opening up of railway communications with ocean steamers, have created a situation which nobody in India previously thought of. The prices of foodgrains have now become permanently dearer than the old famine rates x x x x x This has been aggravated by the export of foodgrains to foreign countries, owing to peculiar conditions prevailing in India. The rise in prices in agricultural produce should have largely benefited the masses of the people, who follow the agricultural profession, but this has not been the case."*

CX. INDIAN RAILWAY RATES IN MAKING.

Costly in origin and costlier in operation and up-keep, the Indian Railways have necessarily been obliged to make charges without any special reference to the traffic they carry to bear those charges. Viewing the Railways only as aids to commerce and industry, I am not, in this place, concerned with the passenger fares on Indian Railways, and shall accordingly confine my attention to goods charges only. After considerable hesitation, variations and blundering, the following principles of Railway rate-making were elaborated as early as 1882, and are still mainly in force.†

> (1) "That the management should principally aim at attracting maximum of traffic the line could carry at reasonably low rates.
>
> (2) That all rates, though capable of classification into groups, should be considered as "Special"; and be fixed with due regard to (a) what the article would bear; (b) the quantity obtainable;
>
> (3) That the rates might vary between the limits represented by (a) the cost of carriage (b) the tax which the trade will bear;
>
> (4) That the whole circumstances of the traffic as regards empty running, intermittant nature of traffic and the effect of competition by other routes should be considered;
>
> (5) That in the case of competition, the principle of rate calculation should be materially altered while such factors as capital cost, gradients, cost of fuel and carrying power should be duly taken into account; the rate must ultimately be governed by a necessity of attracting the traffic and not by any arbitrary standard of it."

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* Op. cit. p. 62.

† No. 162 R. T. 2nd March 1882. As quoted in *Indian Railways* by Chandrika Prasad pp 436-7. the date is differently given in the text and in the footnote, being 1883 in the former and 1882 in the latter.

At the time, however, these sage principles were laid down, competition between Indian Railways was unknown; and consequently the experience which even by that time had been gathered in Great Britain and the United States was practically blank in this country. The Indian Railways were secured a practical monopoly which was in no way disturbed by potential competition until about 1889. Hence the force which in England and America could have been trusted to bring about a rough equity in the treatment of various kinds of traffic and the several classes of traders was absent in this country. Even when the competition did develop, two distinct factors were militating gravely against making the competition a boon in disguise to the trader and producer in this country. On the one hand, the traders, particularly the Indian traders, were too weak and unorganised to offer any resistance to the rate-making policy of the railways; too illiterate and unsuspecting to understand and object to the hundred and one devices by which railway companies could fatten themselves at the expense of the general trading public. On the other hand, the state itself was, from the beginning, gravely interested in the financial success of the Railways. The Government could not afford to adopt a railway rate-making policy, which in spite of all the potentialities that it has been shown to possess in the hands of a railway genius, like the late Mr. Vanderbilt,—who liquidated and reorganised the New York Central railroad into one of the richest and the busiest lines of the world, if not quite the cheapest,—was immediately threatening to make the burden from railways even more onerous than it already was. An agent of the East Indian Railway Company had, as early as 1888, suggested :—

> "That the various railway systems should, as far as possible, serve the country as if they were under one management, and the dealer in country produce should not be hampered in his operations by the necessity to base his calculations, on as many different scales of rates as there may be railways between the starting point and their destination." *

But the treatment of the several lines in the country, as one single system, had in India the disadvantage of making the Government for financial reasons more and more disposed to look upon railways as an earning asset for themselves; the income wherefrom must be manipulated on principles acceptable to the monopolist profiteer rather than to a state intent upon the industrial development of its territory. And this policy was the more firmly rivetted upon India, quite unconsciously, of course, by the growing practice of recruiting the directorate of various companies working in India from amongst the retired high officials of the Government of India. Competition in effect was killed even when there might have been a chance for it. And the remedy, provided by Government, while excellent in intention, has been more than once frustrated in practice. The Law of 1890, which even now governs the carriage of goods by railways in India, seems to be framed expressly in view of this peculiarity. Long before the

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* Quoted in Chandrika Prasad Op. Cit. pp 436.

passing of this Act, Government had formally recognised the duty to protect the public against the unreasonable charges from railways, and to that end they laid down the principle :—

> "That the charges made to the public are admissible of division into two heads—(a) mileage rates and fares which necessarily vary to some extent with the distance the passengers and goods are carried ; and (b) Terminals, this latter being a fixed charge for services incidental to the business of a carrier."

They also prescribed maxima and minima rates and fares for compulsory observance on all railways. The goods rates being divided into five classes with an extra special class for coal, edible grain and other low-priced staples carried at special rates were :— [*]

Class.	Maximum.	Minimum.
	(Pies per mile per maund).	
Class 1st	1/3	1/10
„ 2nd	1/2	1/6
„ 3rd	2/3	1/6
„ 4th	5/6	1/6
„ 5th	1	1/6
Explosives.	1 1/2	1/6

But after fixing these maxima and minima, any further interference Government regard in the light of an undue interference with trade. The result is that railway administrations are free within the limits to vary considerably the rate charged. Thus while a railway administration is not free to transfer a commodity from a higher class to a lower class without the sanction of the Railway Commissioners, they have the option to quote any rate they like within the limits set. For a 2nd class article they may not quote first class rates ; but they are free to quote "rates equivalent to first class rates." [†] And by adding conditions as to packing, distance, load unit, &c. they are able to materially affect the classification itself. According to Mr. Ghose :—

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[*] These figures are taken from *A Monograph on Indian Railway Rates* by S. C. Ghose p. ii. The maxima and minima given by Chandrika Prasad (op. cit. p. 444) are obviously unreliable. The coal rates in force since 1921 1st April, are :—

	Pie per maund per mile.
For all distances upto 200 miles	0·15
Plus for any distance in excess of 200 miles and under 300 miles inclusive.	0·13
Plus for any distance in excess of 300 miles and upto 700 miles inclusive	0·07
Plus for any distance in excess of 700 miles	0·06

[†] Says the Acworth Committee :—

"Fixing maximum and minimum rates does nothing to protect the trader from what is known as undue preference, i. e. charging in one place or on one class of traffic rates unreasonably disproportionate to those charged elsewhere or to other competing traders". Report para 146.

> "Agricultural productions, mineral articles, and cheap goods are grouped under the lowest or first class, and the ordinary rate charged for this class is 1/3 pie per maund per mile, or 9 pies* per ton mile. The second class contains manufactured articles in their first stage and articles in every day use, such as piece-goods, brass-ware, copper-ware, &c. and also higher priced agricultural productions such as cotton. The higher priced articles of merchandise which are carried by railways in small quantities, bulky articles requiring more space in wagons, fragile goods which are attended with risk of damage or breakage during transit, valuable articles, such as silks &c., and dangerous goods requiring special handling and transport are all placed in the higher classes; in fact the rates charged on the commodities increase with the increase in prices of goods, and generally the quantity carried also becomes less." *

It will, however, be very poor consolation to learn that the largest proportion of the railway business is done in goods of the cheapest class if the lowest rate quoted is much higher than corresponding rates in other countries, and disproportionate to the ability of the people to bear it. The special commissioner on Indian Railways, Mr. Robertson, reporting in 1903, found the respective rates in England and in India to be 23·76 and 6·72 pies per ton per mile on merchandise, and 9·34 and 3·55 pies per ton per mile on minerals. But he goes on to observe:—

> "Before, therefore, the fares and rates in India can be regarded relatively as even equal to those in England, the former would require to be lower than the rates now charged for
>
> | | | |
> |---|---|---|
> | Passengers by about from | 18 to 40 | per cent. |
> | General Merchandise | ,, 30 to 60 | ,, ,, |
> | Coal | ,, 40 to 60 | ,, ,, † |

He goes on to say that in America the average rate on all merchandise works out at 4·344 pies per ton mile, while where competitive water carriage existed the rate was even as low as 2 pies per ton and was profitable at that rate. Since 1903 rates in India were considerably reduced; but beginning from 1916 there has been a series of special and general increases,—which are purely financial measures without the least reference to their economic effects. ‡ All the complaints against railway rate-making such as absence of through rates, want of proper attention to local traffic and indigenous industries, unfair discrimination between inland and port trade, between Indians and Europeans; or the peculiarly Indian hardship of "block-rates" § which were submitted to Mr. Robertson in 1903 and in respect of which the railway administration in India was severely censured by that authority, have been repeated by Mr. Ghose in his monograph, and reiterated by the latest Committee of Inquiry on the administration of Indian Railways presided over by Sir William Acworth. Even before that Committee submitted its report, Mr. Ghose had found, in his monograph on Indian Railway Rates, that these rates were in many cases framed to handicap Indian industry, and without regard even to the internal economy of the railways themselves. Thus in the case of Java sugar imported into India he wrote :—

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* Ghose Op. cit. loc. cit.

† *Report on the Administration and Working of the Indian Railways*, para 193 by T. Robertson cd. 1713 of 1903.

‡ The average rate on all the Indian railways put together was 4·62 pies per ton per mile in 1920-21; and since then there has been an increase of 25 per cent. on all goods rate; so that to-day the average rate would be 5·725 pies per ton per mile. cp. *the Indian Year Book* 1923 p. 267. See also Chandrika Prasad op. cit. p. 459 for the average rate on the several railways and Ghose p. 264-5.

§ "Complaints are also loud and frequent from Indian traders in respect of what are known as "Block rates." The term is peculiar to India and needs explanation. A block rate, as we understand it, is a high rate quoted with the object of retaining traffic on the

> "It is questionable whether this traffic ever needed further subsidy in the way of cheap railway rates that were quoted from the ports to the interior. Even if the rates for Java sugar were maximum rates, the railways would not have lost the traffic, but the profits of the Java producers would have been less. x x x x x It may be observed that the special rates for sugar from the ports of Bombay and Calcutta were not for wagon loads, but for actual weight, i. e. carried in any weight, however small or large." [*]

Summing up, then, the charges against the Indian Railway management in regard to the goods traffic on these railways, we find that :—

(a) Being originally very costly in construction, and still more costly in operation, to their being constructed and maintained without reference to economic conditions in India, the railway rates have been fixed without regard to the nature of the traffic and its effects upon Indian trade and industry ;

(b) That Government, though entitled to very considerable powers of control in the matter of rate fixing, have, after fixing maximum and minimum rates for a prescribed classification of goods, left the railways free to manipulate their rates so as to suit their own profiteering propensities, or racial partialities of those who manage the Indian railways ;

(c) That Government being interested so very largely in the commercial success of their railway enterprise, a vicious element of considering the railway rates as an easy form of indirect taxation has of late made its appearance, in the rate-policy of the Indian railways. The policy has not proved a success, for earnings instead of rising in response to the increase in rates, have fallen

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Continued from p. 396).

line on which it originates and preventing, or "blocking" it from passing off, after only a short lead, on to a rival route. Some Indian witnesses, however, use the term as meaning a rate which is higher because the route over which the traffic is carried is in the hands of two separate administrations". Para 152 of the *Acworth Report.* The document goes on to mention the specific mischief of these rates in killing alternative communication by sea in the Bombay and Madras Presidencies by these same block rates.

[*] Ghose Op. cit. p. 230.

considerably. But the Government have not learnt their lesson. If this mistaken policy is suffered to continue, the public ownership and management of railways in India, instead of being the blessing that it could well be expected to be, would be a curse to Indian industries and commerce.

(*d*) That thanks to this tax of profiteering element in the Indian railway management, or perhaps due to the presence of racial bias on the part of individual manipulators,[*] the railway rates in India have definitely discouraged Indian industries for the sake of foreign manufacturer.

(*e*) That[†] owing to the existence of "Block rates", the Indian railways have deliberately endeavoured to root out all alternative means of communications which, being cheaper, would have been more suitable to the peculiar conditions of the small scale Indian industry and agriculture.

(*f*) That the average rate in India on all merchandise works out at a higher figure than is the case in America or Japan; and the difference would be still greater if we take into consideration the economic capacity of the Indian trader and producer to bear the charge.[‡]

(*g*) That, the machinery for making good the complaints of those dealing with the railways is so cumbrous and costly that as a matter of fact no one has ventured to call it into existence, with the result that the railway management is practically free to do what it likes with its helpless clientèle.[§]

(*h*) That railway legislation in India has not embodied any provision definitely and deliberately to frame its rates so as not only to develop local industries and trade, but also to give it a specially preferential treatment[||] as against the foreign trader;

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[*] See para 149 of the Acworth Report.

[†] See Robertson's Report para 268 "I do not think sufficient attention is given to the creation and development of local industries."

[‡] Acworth Committee Report, 152-5 inclusive.

[§] "There is a nominal protection against undue preference in the provisions of the general Railways Act of 1890. But, the enforcement of the remedy under this Act involves the setting up of a special court to try each case, and this procedure is so cumbrous and inapt that in fact no court has ever sat." Acworth Report, Para 146.

[||] Since 1884, the German Railways—also a state enterprise—were made (1) to assist agriculture and industry by granting cheap rates for raw material or subsidiary materials (2) to assist German manufacturers in competition with foreign importers at home and to assist German export trade abroad, (3) to assist German ports in competition with foreign ports, op. Kirkaldy & Evans Op. cit. p. 316, and the railway administrations are too indifferent, if not hostile, to Indian trade to take up the matter on their own account.[*]

(*i*) That no proper through rates or telescoped rates have in consequence been built up[†] not only for loads within the country itself, but also from a point in the country to a port in another country, with a view to develop the trade in Indian manufactures.[‡]

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[*] Both the *Indian Industrial* and the *Fiscal Commissions* have found fault with the railways on this ground, and desired a revision of the rates with a view to aid indirectly Indian industries.

[†] Mr. Ghose gives 5 specific instances on p. 225 of his monograph of through rates in existence. But they are all from the interior to the port, not through rates to foreign ports. Besides the instances leave out the major portion of the Indian railways.

[‡] I am unable to make out what the Acworth Committee intended in para 151 of their report relating to through rates for Indian produce to foreign ports and *vice versa*—to commend or criticise the railway practice in India.

Chapter XVII.

ROAD TRANSPORT.

CXI. REASONS FOR CONSIDERING ITS POSSIBILITIES.

In view of the foregoing remarks on the Indian railways, the question necessarily arises if we cannot find an alternative to this relatively very costly form of inland transport. The old alternative of road transport would not be more economical, if we are to consider only the primitive simplicity of the country-cart, though the measure of railway service must not be sought in comparison with the cost of carriage on the ordinary roads by the country-cart. But with the introduction of the motor vehicle, the road assumes an altogether new importance. The problem of transport in speed as well as bulk is practically solved by the motor lorry, especially for the poorest type of traffic, which cannot afford to pay fancy rates. The capital outlay on roads good enough to permit of regular motor transport, would, no doubt, be very considerable; though nowhere near the £ 10000 or more per mile, which the rail-road has cost. It is indeed a grave misfortune that for financial reasons Government sympathies are so definitely enlisted on behalf of the Railway enterprise, that no other alternative means of transport will really get a fair trial lest it damage the earning capacity of the railway enterprise. It may even be conceded that, now that we seem to be committed to the railway, it would be unwise as well as uneconomic to consider any alternative which may imply a scrapping of the present vast business of the railway. But what we are here considering is not the utter scrapping of the railway, as rather calling a halt to the further extension of an enterprise which is not really suited to the economic conditions of India. For it is only on that condition that, if further transport facilities are really needed, we should at all get a chance of considering alternatives which may be better suited to our economic conditions. The existence or development of alternatives will not really ruin the railways, if those who have the handling of the Indian economic policy really understand their business. For the total traffic will then be more easily distributed between the various means of transport, which will make each carry that branch of the traffic for which it is economically the best adapted; and from which, therefore, it will derive a revenue that would keep it going. Such a skilful adjustment and distribution of the national traffic would mean an untold benefit to the country at large.

CXII. ECONOMICS OF ROAD TRANSPORT.

At first sight the ordinary road will seem to be decidedly at a disadvantage in competing with the railway; and the disadvantage is not very much modified even if we take into account the modern and improved methods of road transport. Still there are advantages in favour of the latter which ought to be properly considered. The vast outlay, we have hitherto made on railways, has given us only about 37000 miles of railroad, which, besides, is fixed and of service only where it is. The ordinary road for relatively lighter traffic can not only be constructed anywhere, but can be constructed at a cost not even a tenth of the cost of the railroad construction. Besides, the road-transport does not need any of those elaborate appliances of stations, sheds, sidings, signals, cabins, warehouses &c. which take up no inconsiderable portion of the railway capital, and involve a correspondingly higher charge to the rail-road customer.[*] The road vehicle of the modern improved type conveys traffic without break of bulk directly from one point to another, and therefore avoids not only the delay in the railway terminals but also the charges for these terminal services. Besides, the road-transport is practically free from the need of a time-table, except such as may be organised by each concern for its own benefit and internal economy. On the railroad the customer must make up and send his consignment to suit the convenience of the railway time-table; while, in a country of small producers and traders, the railway also must put up with a great deal of wastage in the shape of having to run trains with half or 2/3 full loads per wagon, and to allow a good deal of rolling stock to remain idle at wayside stations until a full consignment is made up. We cannot quite definitely or concretely make up the loss due to this wastage to the railway; and still less the loss incurred by the customer in having to suit himself to the railway convenience. But whatever it may be, this advantage of the road transport over the railway transport must be very considerable. Finally, in the case of actual cost of operating the subjoined particulars from two independent sources would prove most interesting. The first set is culled from the Report of the Indian Retrenchment Committee, in connection with the mechanical transport section of the Army expenditure.[†] The second was kindly supplied me by Messrs. Alcock Ashdown of Bombay.

While not quite satisfied by the Commander-in-Chief's proposal to limit the mileage,—presumably minimum—to 1000 miles per annum per motor lorry instead of reducing the establishment to the minimum requirements of peace-time, the Inchcape Committee fixed the above figure as the minimum of work expected from each lorry. The military authorities had submitted the running cost for a Ford car to average per annum Rs. 4250 for an annual mileage of 9600, and at a petrol consumption of 14 miles per gallon. Though no separate cost account per each lorry is given, at this rate for a 4 ton lorry, we may estimate the military cost to be Rs. 12750 per annum. Including depreciation, this would probably amount to Rs. 15000 in round figures for a mileage of 10000 also. This means an average cost per mile of Re. 1-8-0 for 4 tons, or 6 annas per ton-mile. Well might the Retrenchment Committee find this an excessive figure!

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[*] The terminal charges are specially mentioned as a constituent in the Indian railway rates; and are almost everywhere admitted as a proper element for inclusion in ratemaking. In India, when a traffic has to pass on more than one line, though terminal charges are allowed only for the two ends of the journey, an additional charge for transhipment at the intermediate station is also authorised, and is really in the nature of an extra terminal charge.

[†] See the *Inchcape Report* paras 18-23 Pt. I.

But in the case of an army vehicle we have no objective test of its utility—at least in a commercial sense. So I append another estimate of cost of a 4 ton lorry as supplied me by a commercial concern.

Cost of Running Thornycroft "J" Type Chassis: *

Estimated Life of Chassis	120,000 Miles.
Estimated Annual Mileage	15,000 "
Estimated Life of Tyres	10,000 "

Capital Outlay on Vehicle :

	4-Ton.
Chassis	Rs. 17,000
Body, Fittings and Accessories	" 1,500
	Rs. 18,500

Standing Charges :

Depreciation at 15 per cent. on Tyreless Vehicle ...	Rs.	2,572
Interest at 7 per cent. on average value of Vehicle ...	"	532
Driver's and Assistant's wages	"	1,140
Insurance	"	275

Running Charges :

Garrage	"	300
Petrol at Rs. 2 per gallon	"	3,516
Lubricants	"	300
Tyres...One set	"	1,350
Sinking Fund, Repairs, etc., ...	"	825
Total cost per annum ...	Rs.	10,810

Cost per mile .... Annas 11·52.

Note: Petrol consumption—Eight miles per gallon.
Wages:—Driver, Rs. 75 and Assistant at Rs. 20 per mensem.
Annual run: 50 miles per day—for 300 days in the year.

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* The Ford Automobiles (India) Ltd. give the following estimate of running expenses for a one-ton lorry.

Initial cost of Lorry chassis in April 1923	Rs. 2375
Approximate value in April 1926 provided the lorry is given ordinary attention while in use	" 900
Depreciation therefore works out per annum under	" 300
Petrol consumption 12 miles per gallon	3,000
Oil consumption 1½ gallons per month based on a mileage of 1000 miles per month	...

Even in this case the cost per ton-mile is 3·87 annas or 1·28 pies per maund per mile.[*] This is, indeed, far in excess of the minimum rates allowed on the railways. There are possibilities of economies no doubt; but even by doubling the mileage at a full load, the cost per ton-mile would not be reduced to blow 2 annas.[*] This is nearly four to five times as costly as the railroad transport charges; and so the only question is whether it is worth while trying this alternative. For the local transport in a large city, it is no doubt economical, particularly as lorries can be supplied now for any unit load carriage of from 5 cwt. to 10 tons. And in those places, and where neither the railway nor the river transport is available, and where there is no chance of railroad transport being immediately profitable — a very large region in India — I think this form of road transport is bound to be most economical, if only for the sake of developing the region, and paving the way for the railroad transport eventually. It is the intrinsic economy of the road as against the railway, that even when the bulk of its business is taken away by the railroad, it would still be useful; and the capital invested in it cannot be utterly wasted as would be the case on the railway, if once the largest proportion of traffic upon it is removed by a new or alternative competitive agency.

CXIII. THE REAL FIELD FOR ROAD-TRANSPORT IN INDIA.

In spite of its seemingly greater cost, the future for road-transport is by no means gloomy, if only the powers that be could really understand its economy, and set about developing it. Even if roads are improved only as ancillaries to railway, just as "feeder" lines have been developed by the railways, they have still a vast region to tap in India. (1) The whole of the forest estate in India cries out for efficient as well as economical means of

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Continued from p. 402.)

Front wheel tyres cost of cover	„ 75
„ „ tube	„ 13-10
Life of tyres approximately 5000 miles	
Rear wheel tyres pnuematic cost of cover (Fabric)	„ 216
(Cord)	„ 150
„ „ Tube	„ 22
Life of tyres 8000 to 10,000 miles	

Messrs. The Tata Hydro-Electric Power Supply Co. Ltd., Bombay, who own six Ford cars which they have had for several years, give the following figures:

Average mileage per month	„ 1079
„ „ to a gallon petrol	„ 20
Cost per mile including petrol, stores, repair and driver ...	3·8 annas per mile.
„ Cost per car per month	„ 248

They add it must be remembered that in the figures given above the wages of a driver in Bombay are on an average of Rs. 75 per month, and also, owing to traffic, cars are continually held up and the engine idling, causing waste of petrol.

[*] The lorry here considered is a relatively costly vehicle, involving a considerable initial outlay, and a proportionally higher charge by way of depreciation and interest. A cheaper model with 5 to 10 ton capacity and costing say Rs. 10,000 in all, the cost per mile would be (for annual mileage 25,000) 6·8 annas or say 9 pies per ton-mile at the cheapest—still dearer than the average charge on the rail-road.

transport before its great possibilities can be expected to minister to the economic development of India. Considerations of capital cost alone will make, in my judgment, railways out of the question in these forest regions, that occupy nearly a sixth of the area of this country. The road worked by the steam or the motor lorry could be constructed almost anywhere at an insignificant cost; and the regions developed to add we cannot say how much to the annual income of India. (2) And then there are the lands beyond the frontier. The existing railways, as already noticed elsewhere, are, no doubt, a great asset to the future development of the trans-frontier trade of India. But we must never forget the cardinal fact regarding these railways that they were primarily constructed for military reasons of frontier defence or aggression. Their alignment will, therefore, not necessarily coincide with commercial requirements. Roads must, therefore, both supplement and extend the existing transport facilities in view of the future development of our frontier trade. (3) Last but not the least important is the inland region in India itself. Apart from considerations of cost, we can scarcely say that 37,000 odd miles of railway are adequate transport facilities for a country with an area of 1·7 million sq. miles and a population of 320 million souls. But the cost of railways is prohibitive. The possibilities and economics of the inland water communications are discussed in the next chapter. But these cannot always and everywhere be made available. There are regions, like the Himalayas, the Vindhyas and the Nilgiris, which need to be developed as much for their still unknown possibilities, as for such obvious reasons that have made the Alpine Switzerland one of the most prosperous countries in the world.* The only cheap as well as effective means of transport for such cases is to be found in the road—with its modern equipment of fast mechanical means of transit—and this may and can be accomplished without hurting the railways.

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* The Swiss trade never conforms to the maxim that imports must balance the exports, since a great deal of its would-be exports is consumed at home by the foreign travellers visiting it every year by thousands.

Chapter XVIII.

INLAND WATER TRANSPORT IN INDIA.

CXIV. ECONOMICS OF WATER-TRANSPORT.

Both as compared to the ordinary road, or the steel made rail-road, transport by water seems to be commercially much more cheap. The reasons for the relative cheapness are not far to seek. The railroad as well as the ordinary road cost a great deal to make ready for traffic; and when the permanent way is ready, it costs still more perhaps to maintain. In the case of water transport, the permanent way is readymade for the use of man by nature—at least in the case of the sea and large navigable rivers. And though there is a considerable cost for the construction of navigable canals, especially in a country where locks and weirs of large size would have to be constructed owing to the configuration of the country, the cost, as compared to the railroad, is always much smaller. The additional capital outlay involved in providing terminal facilities, like docks, wharves and warehouses, corresponding to the station, sheds and sidings on the railway, is usually made not by the agency which handles the water transport, but by another, distinct and semi-public authority, like a Port Trust. If we include this in the capital required for water transport facilities, the unit cost per mile would be much greater; but even then it would be nowhere near the cost of the rail-road. † The only considerable capital investment required by a water transport agency is that of the vehicle required—the ship or the barge; and possibly the motive power for the same. The ship or the barge has, besides its own recommendation, its own special economy. For, thereby large bulk of cargo can be moved in single units. The biggest railway wagon now in use on Indian railways can carry about 50 tons; while a train load of 20 such wagons would be about the maximum that could be hauled at once by the most powerful locomotives on the largest section of the railroad. Single barges of three hundred tons are made the standard vehicle of carriage on the French canals, while in Germany the water-way is deepened and broadened to admit of single barges of 1000 tons and more. Increase of traffic, moreover, means a proportionate wear and tear on the road as well as the railway, with a corresponding increase in the depreciation to be provided for, or, what is

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[*] According to Mr. Palmer, *British Canals, Problems and Possibilities*, the cost of the permanent way per mile on railroad in Britain is £ 56,000 while that on the water way is £ 10,175. The cost of maintenance in the same country was in 1912 £ 499 per mile on railroad and £ 141-171 on the canals. cp. Kirkaldy & Evans, op. cit. p. 220.

† The still more remote capital outlay, like that on marine survey and cartography, as well as on lighting of coasts and buoying channels, not to mention marine cables and wireless installations, is all incurred by state Governments, more or less in the nature of an international obligation.

the same thing, renewals and replacements. On the canal, the river and the sea, increase of traffic means proportionately negligible wear and tear both on the permanent way and on the vehicles.

This initial economy of the water-way over the railway is driven home by the further advantage inherent in the method of working each of these means of transport. Load for load, boats are cheaper to run than railway wagons. For it has been estimated that a railway wagon weighs from one-half to three-fourths of the weight it can carry, while canal boats weigh only one-fifth or one-sixth of their total carrying capacity.* A railway engine, therefore, hauling a goods load of 1,000 tons would probably be hauling in all about 1,500 to 1,750 tons, a waste of energy, which could not be avoided, but which adds to the cost enormously. This non-paying load or haulage could be reduced if lighter materials are used in the construction of railway wagons; but they have not yet turned their attention for economy in this direction. A witness before a Royal Commission on canals in England stated :—

> "A railway train loaded with 200 tons costs £. 3,360 and a steam barge to carry the same tonnage £. 1,600. The steam barge can tow three barges, each carrying 200 tons and each costing £. 1,000. The cost, therefore, of the steam barge and the three dumb barges is £. 4,600. Railway rolling-stock to carry the same tonnage costs £. 15,000." †

When the carrying unit is proportionately larger, the cost per unit carried must diminish. The rates of expenses diminish in proportion as the load increases to a greater extent with water transport than with railway transport, owing, possibly, to the existence of a greater friction on the land-route even when furnished with a rail-road.

The last of the economics of water transport, particularly as compared to the road transport on railways, is the relatively lower cost of motive power on the naturally suitable water-ways than on the railway. We have already quoted Mr. Chisholme's dictum that while on a good wagon road, a single horse power will drag about 3000 lbs at 3 ft. per second, on a railway the same power would drag 30,000 lbs the same distance, and in water upto as much as 200,000 lbs. Let us quote here, in illustration of the same point, but in a slightly altered terminology, the figures given by a witness before the Royal Commission on canals in Britain. On the Aire and the Calder Navigation canal, the cost of haulage by steam tugs was 1/29 of a penny per mile and by horse 1/10 of a penny, while the cost of hauling coal in tank barges was 1/119 of a penny per mile.‡ Of course, as the authority, from whom we have cited these figures, observes, it is necessary, in order to obtain the most economical results on the canals, that they be of the most suitable sectional area, as well as that barges should be of just the right size to match with the sectional area of the water-way. But this condition, as the experience of France shows, is not difficult of accomplishment; so that with proper adjustment of the water-way and of the traffic to be carried along it, there is no reason why it should not be made, as it once undoubtedly was, the most effective means of contributing to national economy.

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* Cp. Kirkaldy and Evans op. cit. p. 221.

† Kirkaldy and Evans op. cit. loc. cit.

‡ Quoted in Kirkaldy & Evans op. cit. p. 222.

CXV. WATER-TRANSPORT IN OTHER COUNTRIES.

With all these obvious advantages, it is difficult to understand why, in this age of heavy traffic, water transport has not held its own, at least as regards the inland transport. In most cases the explanation commonly given and believed in is the ruinous hostility of the railways to the inland water-way, which has made the latter a commercial back-number. In cases where the community, and its representative, the Government, had not parted with all the powers of regulating competition and adjusting traffic, the water-way still makes good its claim to an integral place in the national economic system. In France they spent from 1841 to the outbreak of the war £100 million in round figures on construction, improvement, maintenance and repairs of the artificial waterways.* The waterways have been tax free since 1879, and carry traffic which in 1906 was 34,144,000 tons. The freight charges on French canals have been described as much lower than those in England, where there are barely 3000 miles of navigation canals, which are suffered to exist at the mercy of the all-powerful railway.

Belgium has one of the most intensely developed systems of water-communication in the world. Its total length is 1345 miles, which, for a country of that size is very considerable, and have cost some £25 million for construction and improvment since 1831. Though the State charges dues, they are so adjusted as just to pay for the expenses, the Government expecting no profit or return from the money spent on these national assets of improvement. They also adjust the rates on the railways so as to prevent the water-carrier from being crushed by rail-road competition. While the railways in Belgium carried 65,319,000 tons in 1905 the water-ways had 53,345,000 tons to their share, the water freight being only about 3/5 of the railway rates on an average. The following testimonial from the British Royal Commission on Railways and Canals, is sufficient to explain the national value of properly adjusted water-ways.†

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* The total length for 1911 of French water-ways is given as:—

Navigable rivers:	5450 miles
Canals	3104 ,,

In 1918 there were 3620 miles of canals. So this gives a total water-way of over 9000 miles; and a new programme for further improvement was adopted in 1919. See the *Statesman's Year Book* for 1922. p. 885.

† Quoted in Kirkaldy & Evans op. cit. p. 225.

> "Birmingham is at nearly the same distance from the ports of Liverpool and Bristol as Liege is from Antwerp. To convey the same goods from Birmingham and either of these ports by water would cost about three times as much per ton per mile as the transport between Liege and Antwerp, and it would moreover be necessary to incur the cost and delay of transhipment from one boat to another on the way."

The German water-ways, like all other economic activities of that wonderful people, were planned and carried out by the characteristic thoroughness of that country. After the railways had demonstrated the trade value of these improved means of communications, they decided to improve their water-ways. Already gifted admirably by nature in this regard in the shape of a handsomely distributed river-system, they decided to add a system of water-ways which would permit boats of 400 tons to navigate east of Berlin, and of 600 tons west of that city. At the cost of only some £ 42 million they have secured a total water mileage of some 8,500 miles. On the free rivers, like the Rhine and the Elbe, there are no dues; while the state foregoes all interest charge on the money spent upon their development. On the Rhine single barges of as much as 2,500 tons can navigate upto Frankfurt, thus facilitating the immense traffic of the heart of industrial Germany. The German water-ways in 1905 carried a total traffic of 67,000,000 tons.

In Britain, as already remarked, the rivalry of the railways has killed the canal. They have had a glorious past, but seem to have no future. The Royal Commission of 1909 was by no means sanguine about the commercial possibilities of the British water-ways; and so made some half-hearted suggestions which have naturally found no supporters. In America the canals came before the railways. But, wanting in daring and enterprise, they have fast receded into the background, thanks to the free competition with the railways, which, in spite of a high operating cost, have so adjusted their rates as to be the cheapest, comparatively speaking, in the whole world.

CXVI. WATERWAYS IN INDIA.

With such an experience of the world before them, why have the Government of India neglected the water communication in India? As already pointed out in the Introduction, in the days of the Mughal and the Mauryan Empires, water communication was flourishing in this country; while, by contrast, it seems to be entirely non-existent to-day. The country is well-gifted with large rivers, which do not need, as those in the colder European and American countries do, any considerable investment of capital for keeping them free from ice or any similar natural obstacle that would prevent their perennial navigation. They are perennial streams, and have, in the case of such rivers as the Ganges and the Indus, the Hoogly and the Brahmaputra, a water-shed, which would also obviate any great capital investment for locks, weirs &c. In the hilly regions of the

Deccan, it is true the watershed is not quite so propitious; but even there for securing adequate navigation on the Kistna and the Godaveri, the Neera, and the Bheema, capital outlay of not even one per cent of that spent on the railways would be required. Sir A. Cotton, of great Irrigation fame, had stated, as early as 1872, before a Parliamentary Committee:—

> "My great point is that what India wants is water carriage; that the railways have completely failed; they cannot carry at the price required; they cannot carry the quantities and they cost the country three millions a year, and increasing, to support them. That steam-boat canals would not have cost one-eighth that of the railways; they would carry any quantities at nominal prices and at any speed; and would require no support from the Treasury and would be combined with irrigation." [*]

To give an ernest of his suggestion being practical and practicable, **he offered**, at a public meeting in Manchester in January 1878, under the auspices of John Bright, **to construct all the necessary navigation canals in India at a cost of £ 30 million all told.** The principal lines he aimed at constructing were 4: (1) From Calcutta to Karachi, up the Ganges and down the Indus; (2) from Coconada to Surat up the Godaveri and down the Tapti; (3) a line up the Tumbhadra to Karwar on the Arabian sea; and (4) a line up Ponang, by Palaghat and Coimbatore. [†]

But the interests involved on behalf of the railways even then, when only £ 112 million had been invested in the railway enterprise proved too strong for Sir Arthur Cotton. To-day the state in India seems to be committed too thoroughly to making the railways a success willingly to consider any alternative in transport, which, however suitable to the local conditions, might conceivably jeopardise the financial position of their railways. Not that the railways are a success. The latest committee on Indian railways proved just too early to escape from the fallacious profit-making aspect of the railways. But the Indian Retrenchment Committee has not quite been blinded by the allegations of productivity of the Indian railways. Even the Acworth Committee of 1921 was obliged to note the ruinous effect of the railways on our smaller river ports like Surat or Broach, and recommended that special inquiry be made into the possibility of inland water communications. But neither they nor even the Inchcape Committee quite perceived the vicious circle of argument the railways were creating for themselves. For, by killing all possible competition; by destroying all ports except a few where their own terminal facilities made it convenient to concentrate business, they have brought about a congestion of traffic for a few centres which they have not the means to handle economically; while the conditions of business for the other smaller centres are such as would not leave them much profit on such business as they can get. On the one hand is the cry of congestion, which means more investment on rolling stock and road improvement, under the present high prices. On the other hand, there is insufficiency of profit on carrying small loads for very short leads, which alone the economic conditions of the country can offer them. If they raise the rates, there is the prospect of killing the business that there is. Would it not be wise even now to reconsider the position? It is proposed to spend 150 crores on railway improvement in 5 years. Half of that sum would suffice to give us all the inland navigation facilities we need on the rivers or fresh canals. In addition they would take off the railway that bulky but cheap traffic, which it does not pay the railways to carry; but which being taken off its hands, would free its rolling stock as well as line for more remunerative work. The state is absolute master, for all practical purposes, of the railways in India; and can be made to be so also of the navigated rivers and canals. By adjusting rates so as to make a suitable distribution of traffic on these two forms of transport, it could make each prosperous and profitable, and yet minister substantially to the welfare of the country. The excuse of irrigation requirements cannot avail against this plea, as Sir Arthur Cotton had long since demonstrated the possibility of combining irrigation with navigation canals, by a deeper cut and a broader surface. The extra cost would be negligible in proportion, while of the 80 odd million of goods tonnage now carried on the Indian railways 30 million tons of cheaper traffic would suffice to make the cannals a paying proposition in India; and, on the superior remaining traffic, rates could be increased, if need be, to a proportion that would make the railways also pay. But would the Government dare the experiment?

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[*] Report of 1872 Questions 8429 and 8560.

[†] Cp. Dutt, *India in the Victorian Age*, pp. 360-70.

Chapter XIX.

GENERAL ECONOMIC CHARACTERISTICS OF MARINE TRANSPORT.

CXVII. ECONOMICS OF OCEAN TRANSPORT.

As already remarked, when discussing the economics of inland water-transport, the carriage of goods by water is very much cheaper than that by land. Owing only to the lower resistance of the medium through which the vehicle is to be propelled, the expenditure of energy is necessarily less in water transport than in land transport. And what applies to Inland water communication with its artificially cut channels must apply with still greater force to the carriers on the public high-way of the ocean. But, besides the initially lower expenditure of energy, there are other advantages in favour of water transport on the high-seas which necessarily leave the balance of advantages in its favour, so that wherever the alternative is at all possible the business will preferably go to the water-carrier. For on land, in spite of the most laudable exertions in recent years for constructing through trans-continental routes, there is almost everywhere the difference in gauges and the barriers of frontiers and customs houses, which necessarily demand a break of bulk or of run to the grave prejudice of the economics of the carrying business. On sea there need be no such break of bulk. Provided those who manipulate the business understand and practise the art of properly stowing the cargo in the most effective and the economic manner, a modern ship can be made to serve almost as well for small as for large scale operations. The railroad, moreover, is fixed and can take goods only along the given route. The steamer is free of the seas, except in war-time when great naval powers try to restrict the freedom of the seas for purposes of mutual destruction; but even then the awakening of the international conscience, combined with the invention of the most perfect means of guarding against the aeroplane and the submarine, has made the danger probably much less for future generations than it was during the last world war. An unduly large steamer may, indeed, be restricted in its trading radius between ports where there are adequate facilities of dock-room and loading apparatus at considerable cost. The Suez Canal and the Panama Canal, besides, have imposed definite limits on the size of the ships that could participate in the trade going through these channels—though the limit is large enough to exclude only the largest vessels afloat.[*] But for a vessel of moderate size, say, about 7500 tons gross, practically every port in the civilised commercial world would be open, so that cargo could be taken anywhere for anywhere.

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[*] The Panama Canal would probably give passage to the largest ship now afloat being 40 ft. deep while the Suez Canal depth is only 34.5 ft.

These considerations have led to the evolution of extreme specialisation in the types of ships intended for different kinds of trade. In the days of Queen Elizabeth, or even, for the matter of that of Nelson, there was not much difference between the fighting ship and the merchantman; so that, at pinch, the latter could be used to do excellent national service. As a matter of fact, the East Indiaman of the eighteenth and early nineteenth century, built with almost equal attention to speed, armaments and carrying capacity, could and did do service equally well as a merchantman or a man-o'-war. But to-day not only is the fighting ship entirely separate from the commercial vessel,[*] but in both of the principal types of ships there are again very important subdivisions. The navy must have its capital ships and cruisers, its destroyers and torpedo-boats, and gunboats, its submarines and aero-plane carriers, each specially designed and equipped just to do the work for which it was designed, not to mention the auxiliaries of hospital ships, colliers, transports, targets &c. The mercantile marine has its liner and tramp and trawler; the former again subdivided into passenger boats exclusively, with hyper-luxurious equipment as in the North Atlantic trade catering for millionaires, or with the more solid though less showy, more democratic and less expensive, fittings as in the new venture for the Anglo-Australian passenger trade of the White Star line; or passenger and cargo boat mixed, plying regularly on given routes for more or less assured traffic. The purely cargo steamer is predominantly a tramp, which wanders from port to port in search of cargo that it may get by chance. But even there it must and does have some special feature to suit itself to the main business it may be meant for; e. g. a refrigerator equipment for vessels engaged in the frozen meat trade between Australia or Argentina and the European countries; or oil carriage equipment, or any other similarly peculiar feature. In discussing the relative economy of the tramp and the liner, it has been said by a recent authority:[†]

> "The tramp obtains economy at the expense of speed, while the liner's advantages must be compensated for by increased expenditure in many directions. From one quarter to one half the working expenses of a vessel consist of fuel cost, and the familiar economic law of diminishing returns is also apparent in the shipping business. Beyond a certain point the extra speed obtained is not proportionate to the additional fuel required. Thus, an immense steamer reaching a speed of 25 knots does so at the expense of twenty times the coal required for a 10-knot freighter. The liner, therefore, pays heavily for the privilege of making more voyages annually and collecting higher freight rates. In addition, greater fuel space and engine space must be provided at the expense of the productive space, the schedule must be maintained regardless of freight earned, the construction cost of vessels is higher and the management expenses are great, for advertising

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[*] We leave out of consideration, for the sake of simplicity in argument, such exceptional arrangements as the one of the British Government with the Cunard Company whereby the latter, in consideration of an annual subsidy from the British Admiralty, has agreed to build and maintain some of the fastest vessels in the world, which could at pinch be converted into auxiliary cruisers for service with the fighting fleet.

[†] Riegel *Merchant Vessels* p. 63.

> is employed to create traffic, offices must be maintained to handle the business, and the staff must be sufficient to handle the largest volume of business, though part of it may be idle in duller time. × × × × The economics of the tramp vessel may be briefly summarised as economics of (1) construction, (2) navigation and (3) management."*

The essential cheapness of marine transport is best illustrated by the relatively small capital required for running a shipping business. It has been estimated that the total capital invested in British shipping enterprise was £10,964,108 in 1913 as against £1,200,000,000 supposed to have been sunk in the British railways.† According to an analysis of 98 shipping companies in the last number of the *Fairplay*, for 1913 the leading shipping journal in Britain, the total capital above-named earned an average dividend of 12·56 per cent., in addition to £3,344,643, being transferred to depreciation account. Of the 98 companies:—

19	had only one vessel each
13	„ „ two „ „
8	„ „ three „ „
11	„ „ four „ „
28	„ between 5-10 „ „
11	„ „ 10-15 „ „
3	„ over 20 „ „

The smallest of these companies was working with one steamer only of 1533 gross tons with a paid-up capital of £ 8460, while the largest had a fleet of 36 vessels, with an aggregate gross tonnage of 127,596 on a paid-up capital of £ 499,570.‡ Since the war, the capital of the principal companies has been very considerably increased; and judging from the present conditions, it would seem as though the race remains with the large combine, with a magnificent and corresponding capital resources which permit the company not only to obtain the best terms from its rivals, and thus assure itself of a fair share of the carrying business, but also to arrange and specialise its fleet so as to meet most economically and effectively the particular needs of each particular section of its business. On the other hand, the excessive construction of new tonnage, undertaken to replace the wastage caused by the war, combined with the political chaos and economic dislocation now reigning in the most important commercial countries of the world, has necessarily resulted in a slump, which once more holds out a promising future to the

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* The same writer estimates that though the tramp vessels may be 25 times as numerous as the line vessels, the total tonnage of tramp vessels is only 60 per cent. while the line vessels account for the remaining 40.

† See Kirkaldy and Evans, Op. Cit.

‡ The capital &c. of the principal British steamship companies is, according to the latest available balance sheets, as follows :—

Name of company	Capital and Debentures	Value of Fleet &c.	Tonnage
White Star.	£ 6,448,000	£ 8,220,748	546,680
			473,658
Cunard	£ 6,956,000	15,833,1[illegible]2	(290,814)
P. & O.	£ 11,620,078	12,633,256	556,709

small but enterprising and well-equipped ship-owner.[*] The best adapted, average-sized, general-purpose cargo steamer of to-day may be taken to be a vessel of some 5000—8000 tons gross (5000 net) with a carrying capacity of about 10000 tons at most, a length of 480 ft. breadth 63 ft. depth 30 ft. carrying a crew of some 40 men. Before the war it was estimated to cost £ 50,000 in round terms and will probably cost not much more now. Fitted with quadruple expansion engines, it would need a coal consumption of 65–70 tons a day, doing 4½ knots per each ton of coal consumed, or about 12–14 knots per hour. It can earn well enough—or even better than a much larger vessel that may be freighted to do direct business—but may be obliged to break bulk and incur the additional expense and delay of loading and reloading for smaller coasting vessels, while its smaller rival of the type indicated will need no such expense.

CXVIII. NEW FORCES IN SHIPPING BUSINESS ORGANISATION.

In the initial outlay of a shipping concern the question of the material and equipment of the individual ship, as well as the total size of the fleet, is of the utmost importance. Its wise decision will practically decide the success of the venture. The size of the fleet will depend, indeed, upon the nature and extent of the business expected to be handled; and extension may be made according to the development of the business, from time to time. A good deal of the business is now regulated among the principal steamship lines of the world by means of the so-called Conference which guarantee regularity of service, and stability of freight charge &c. We shall have more to say of these conferences, and their chief weapon-the Deferred Rebate System—when we come to deal more particularly with the Indian trans-marine trade. But here we may point out that the shipping manager, finding competition from smaller carriers more and more irksome, had to evolve some kind of a working arrangement in order to prevent cut-throat competition. Two main forms of these combinations may be instanced. The one—and historically perhaps the earlier—consists in a lateral joining up whereby the principal lines trading in the same zone agree to work together under one flag.* Even if the individual companies retain their legal independence, the working is that of a joint and single concern. But this form was not sufficient to regulate and apportion the trade of the world. The British steam-ship companies, doing nearly two-thirds of the world's carrying trade, first tried the policy of a shipping ring, but the ring was frequently broken and reformed, including very often the breaker himself. The reason why the earlier attempts at closer trade agreements for pooling and apportioning traffic between the agreeing lines, at stable rates, failed is to be found in the absence of any sanction in the hands of the contracting parties to enforce their arrangement upon the shippers. To make up this defect they evolved the Deferred Rebate System. The following definition of a Shipping Conference—as the Ring is now known—and its methods of working, culled by Mr. S. N. Haji from the Report of the Royal Commission on Shipping Rings in 1909, and embodied in his Indian Shipping Series, Pamphlet No 3, entitled the Deferred Rebate System, is sufficient to give an idea of this new force in the world of transport.†

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[*] The catalogue of qualifications expected of the small ship-owners of to-day, who mean to make good their position, is sufficiently formidable to need recapitulation for the venturesome in countries like ours.

"The owner in the old days might worry but he could not fully control. Compare his position and responsibility with those of the manager of a modern tramp steamer. The latter not only needs to know the main facts about steam, fuel, constructional materials, and the many items of knowledge, which are necessary if he is to keep the vehicle he employs abreast of the times; but he must know the exporting and importing centres of the world, and the commodities available at or for each. He must keep his finger on the pulse of many markets, so that his ship or ships may be where they are wanted at a given moment, and not side-tracked when there is a boom with consequent high freights. The successful tramp-owner must be a many-sided man, knowing just a little more than his average competitor. This little bit of extra knowledge can only be obtained by the *sweat of one's brain*, but it pays handsomely………Such a man knows but little peace. He must not miss a single item of news connected with markets, freights, crops and production." This is an inventory of absolutely indispensable knowledge which India's would be shipping magnates would do well to remember!

A Shipping "Ring" or "Conference" is a combination more or less close of Shipping Companies formed for the purpose of regulating or restricting competition in the carrying trade on a given trade route or routes. The vessels employed by these companies are usually of the class known as Liners, *i.e.*, vessels of high class and speed, sailing and arriving at fixed dates advertised beforehand. In addition to mail and passenger steamers, they include vessels which carry cargo only and are known as cargo liners. In some cases, vessels which operate elsewhere and at other times as tramps are also employed by the Conference Lines.

The operations of a Conference are confined to a particular trade route, that is to say, the engagements which the various companies enter into with one another only apply to the trade within certain definite areas or between specific ports. A steamship company may be a member of several Conferences, but its engagements in one are independent of those in any other.

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* The combination of the P. & O. and the British India Steam Navigation Companies is an instance in point. The International Mercantile Marine Co. includes the White Star, the Red Star, the American, the Atlantic Transport, the Leyland and the Dominion Lines with a total tonnage of over 1 million. The Royal Mail group controls nearly 2 million tons and rules the African trade. The premier German and Japanese companies were similarly combined.

† The historical origin of the modern Deferred Rebate System has been thus traced by Messrs. Kirkaldy and Evans. Op. Cit. p. 306, "During the pre-submarine cable days, it had been the rule for shippers to allow the captain of a ship 10 per cent. of the freight to enlist his good offices, presumably in case of anything going wrong at the port of destination, when only the man on the spot could act. This percentage on the freight was called primage. The *raison d'être* of the payment ceased, but shipping companies still continued the charge, giving sometimes as an explanation that it was a payment for the use of the ship's gear in loading and discharging cargo. It was used, by some members of the rings, as a means of offering an inducement to shippers i.e. by halving the primage, or by returning the whole; thus the net freight was charged and the letter of the agreement between members of a ring was kept. The new weapon of the conference was not really primage itself, but it was undoubtedly suggested by this practice."

The alliance is not one of steam-ship companies for all purposes but only as to their operations within a specified area.

The system of deferred rebates, by which the shipping conferences turn themselves into practically monopolistic and generally anti-social organizations, works as under:— *

The Companies issue a notice or circular to shippers informing them that, if at the end of a certain period (usually four or six months) they have not shipped goods by any vessels other than those despatched by Members of the Conferences, they will be credited with a sum equivalent to a certain part (usually 10 per cent) of the aggregate freights paid on their shipments during that period, and that this sum will be paid over to them, if at the end of a further period (usually four or six months) they have continued to confine their shipments to vessels belonging to Members of the Conference. The sum so paid is known as a deferred rebate. Thus in the Indian Coastal Trade at the present day the amount of the rebate payable is 10 per cent. of the freight paid by the shipper. The rebates are calculated in respect of two six-monthly periods ending with the 30th June and 31st December, respectively, but their payment to the shipper is not due until a further period of six months has elapsed; that is to say, as to shipments made between the 1st January and the 30th June, the rebates are payable on the 1st January following, and, as to shipments made between the 1st July and the 31st December, the rebates are payable on the 1st July next. It follows that in every instance the payment of the rebate on any particular item of cargo is withheld by the shipowners for at least six months or more; and that, in the case of cargo shipped on the 1st January, or 1st July, it is withheld for a period of full twelve months. If during either six-monthly period a shipper sends any quantity of goods, however small, by a vessel other than those despatched by the Conference Lines, he becomes disentitled to rebates on any of his shipments by Conference vessels during that period and the preceding one. He, moreover, courts another danger. It is not unusual for the Conference lines to penalize a "disloyal" shipper by refusing him space in their steamers for subsequent shipments. Fear of a possible ruin, therefore, prevents a shipper from patronizing a new shipping company.

In order to obtain the rebate due to him, a shipper has to make a statement on a form of claim prescribed by the Conference Lines to the effect that he has complied with the conditions of the rebate circular, and, in the case of most Conferences, this statement has to be sent within a prescribed period to the Shipping Company from whom the rebates are claimed. If a shipper has shipped goods by more than one company in the

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* "Immoral in ethics, unfair in economics, and almost illegal in law, the rebate, withheld by the shipping companies, to guarantee the loyalty of shippers, creates a virtual monopoly": Haji op. cit. 2.

Conference, he claims from each of those Companies the amount of rebates due upon his shipments in each case. The rebates, that is to say, are usually paid by the individual members of the Conference and not by the Conference as a whole. In the Bombay-Rangoon Trade, the shipper has to forward the following letter to the Shipping Company before he can receive the rebate due to him:—

> "Annexed we beg to hand you a list of our shipments of cargo by your line of steamers to Rangoon *during the six-months* ending......on the freight of which we claim a rebate of 10 per cent. in consideration of our not having made or held any interest whatever in other shipment from Bombay to that port by vessels other than those belonging to the British India Steam Navigation Coy., Ld. and Asiatic S. N. Coy., Ld., during the past twelve months."

The same writer has examined, from the stand-point of a frank antagonist of the Deferred Rebate System, the alleged advantages of the practice, and comes to the conclusion that in almost every instance the advantage is exaggerated. Thus (1) the supposed guarantee of regular sailings was no innovation of the deferred rebate system. It existed before, and is, at least, as much in the interest of the ship-owner, who is enabled thereby to cut down to the minimum the time wasted in docks for loading and unloading, as in that of the shipper. The latter has often a periodical or seasonal business,—like that of the rice shippers from Burma,—which makes them anxious, not so much for regular sailings throughout the year, as for adequate sailings during the season. By fixing a regular schedule of sailings, the ship-owner is able so to dispose of his fleet as to make it earn the most from off-season traffic all the year round. The fact that the United States, after declaring shipping combinations illegal,* has in no way suffered from any irregularity in their shipping service is sufficient evidence of the needlessness of the new method for ensuring regular sailings. Finally, the regularity, even such as it is, that can be directly traced to the new system, is a regularity between certain large ports only, with an entire cessation of service to other less paying ports or the inconvenience and expense of transhipment. (2) Similarly, stability in rates of freight is an advantage more for the ship-owner who does not suffer any loss even in times of depression, thanks to the fixed freight charge secured by the accumulated rebates, than to the shipper. (3) The claim to supply better class of vessels is of doubtful advantage to small traders, apart from the fact that superior class of steamers ply in regions where there are no conference rates. (4) The uniform treatment of the strong and the weak by the Ship-owner would be a marked advantage for the small trader,—particularly in contrast with the railway practice of charging what the traffic can bear, which results in undue preference to the richer as against the poorer trader,—could we but believe that the freight fixed by the conference lines was in accordance with the marginal utility of the business, and suited to the ability of the smallest shipper to pay. Besides

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* Cp. Shipping Act of 1916 as amended by the Merchant Marine Act of 1920. S. 14.

> "The Conference lines give preference to Government and Municipalities and, notwithstanding protests, to certain favoured merchants."*

But, however injurious these peculiarities—and a few more of the same ilk—of the conference system may seem to the outsider, the lines joining in the conference system seem determined to maintain it. To them it spells greater economy not only in eliminating competition, but also in a greater ability in a better organisation of the fleet. The Minority Report of the Royal Commission on Shipping Rings (1909) did, indeed, feel it an economic disadvantage that the conference system led to an inflation of tonnage beyond the economically profitable level :—

> "The trade reserved for the liners of the Conference is not brought under one monopoly. It is divided into a number of local sections, each section being the subject of a separate monopoly. With a trade which fluctuates in magnitude from year to year, the supply of ships tends to increase to the extent which will enable it to deal with years of maximum trade and consequently it will be in excess in the lean years. When the trade is divided into two sections, each served by a separate class of steamers, the tendency will be to provide a maximum tonnage for each section and the aggregate of the two maxima will, as a rule, be in excess of the maximum that would be required if the whole trade were equally open to both classes of steamers. In the same way each Shipping Ring, having a monopoly of a particular section of the shipping trade, will be under a temptation to provide, and will generally provide, the number of steamers required for years of full trade in its own particular section, and will have more steamers than required for a year of lean trade in that section. The aggregate of the shipping maintained by all the Shipping Rings will, therefore, exceed the aggregate that would be necessary for the same trade under a system of free competition and there is consequent waste."

But the ardent advocate of the conference system, and of the monopoly it engenders, would only regard this as a hint to organise the conference more effectively, and weed out its more uneconomic features. In proportion, however, as the conference develops, and its monopolistic hold on the trade gets confirmed, the merchant must suffer. And if he succeeds in shifting that burden on to the producer or the consumer of the commodities he deals in, the community will have to pay the piper. That is one of the reasons why many powerful communities, like the U. S. A. Australia South Africa, France, have legislated definitely against the Rebate System and shipping monopoly; and the two former have even undertaken collective shipping to do the carrying trade for their own people. Transport facilities in fine, under present developments, do not result in an unmixed gain to the community, which is, therefore, groping in all countries at finding means to retain the advantages and discard the disadvantages.

CXIX. NEW FORCES IN SHIPPING BUSINESS EQUIPMENT.

But if the charges effected in the organisation of the shipping business are great, those in the equipment are not an iota less important. In fact, it is the latter which have directly contributed to the evolution of the former. Thus only sixty years ago the bulk of the world's ocean carrying business was done by wooden vessels propelled by the natural force of the wind; to-day the sail tonnage is barely 10 per cent. if even so much.* Even apart from the superior regularity of the steam vessel in service, resulting from its higher average speed, the construction of canals, like the Suez and the Panama, made the sailing vessel at a great disadvantage on the principal and most paying lines of the world trade-routes. For, the canals could not tolerate being blocked up; and a sailing vessel could never guarantee prompt and regular clearing. It was this disadvantage of the absence of a controllable motor-power, which made the real economies of a sailing-vessel insignificant. For though its motive power costs nothing while fuel provision may absorb anything upto half of the total working expenses of the vessel; while it has practically the whole space available for cargo or profit-making business, as it wants no idle room for boilers, bunkers, engines or shaft which in a steamer occupy from one-fourth to one-third the hull capacity, and though it needs a relatively much smaller crew,† for want of regularity in service the sailing, wooden vessel seems to be doomed. Whether the combination of wood in construction for material—wood being much more cheap than iron or steel—and some motor engine to guarantee regularity of service and speed, will revive the wooden vessel, and permit it also to make use of the wind-power, is a matter which ought to engage the most serious attention of those who would build up a considerable mercantile marine for themselves, but have yet got no adequate iron and steel resources of their own to make it worth their while. But as things stand, competent observers are inclined to believe that the sailing wooden vessel is not entirely out of use to-day and for the immediate future. In coasting trade with low grade traffic, where the absence of definite tonnage fails to attract steamers, the sailing vessel still holds its own. In emergencies, again, like that caused by the submarine terror during the last war, the sailing vessel may come into its own.‡ Wherever the initial invest-

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* Haji op cit, p. 16.

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* According to a writer in the *Fortnightly Review* for May 1923, on *From Coal to Oil*, the following proportions of different kinds of vessels are given in the percentage of the total gross tonnage of the world:

Power	1914	1922
Sail	7·95	4·70
Oil (Internal combustion)	0·47	2·35
Oil for boilers	2·62	22·34
Coal	88·96	70·61

† "A sailing vessel of 2400 net tons might require a crew of 34 of whom 22 are seamen, while a steamer of similar size shipped a crew of 38 of whom 11 were seamen and 17 engineers, firemen and coal passers. On a large and slow steam vessel the crew may average as low as one man per 100 tons net register, but the average for a similar sailing vessel may be much lower." Riegel *Merchant Vessels* p. 11. The same writer mentions the biggest built steel schooner—a sailing vessel—of 5218 tons gross register, with 7 masts and 43000 sq. yds. of canvas space and a crew of 18.

‡ I have heard on good authority that in that period, the wooden sailing vessels from the native states on Western India used to do such a good business, that a single voyage to Basra would pay the whole cost of construction and fitting out.

ment is a consideration the old-type sailing vessel would be preferred; while for some kind of bulky cargo,—e. g. coal, lumber, grain,—it is undeniably more suitable.

But the iron vessel has its own advantages, which has made it the predominant type in the modern ocean carrying trade of the world. It is lighter than a wooden vessel; for in every 100 tons of displacement, a wooden ship must give 40 for hull and fittings, leaving only 60 for cargo carrying capacity; in an iron ship the proportions are 30 : 70 respectively. This joined to its superior structural strength and resistance to the ordinary dangers on a voyage, not to mention its capacity for almost unlimited expansion, the iron steamer naturally took the bulk of the business from the wooden ship. And the same reasoning in a cumulative form led to the replacement of iron by steel in the construction of vessels. [*] The wooden vessel may have a future, if the Diesel or any other internal combustion engine could be economically fitted in it; but the iron vessel is doomed. The latest improvements in the construction and economy of the marine engines seem to make steel vessels more than ever preferable to the old iron tubs.

But the greatest question at present in the matter of ship-equipment is the question of oil *versus* coal for supplying the motive power. The large vested interest of the already existing tonnage motived by coal, coupled with the additional cost of converting the coal-burners into oil-burners, is, indeed, a great drawback against the immediate solution of the question. [†] But the admitted economy of oil fuel renders it increasingly more popular and more extensively used, till the U. S. A. Shipping Board, programmed to have 10 million tons deadweight capacity, proposed to keep only one-fifth of this tonnage as coal-burners and the remainder as oil-burners, [‡] while practically the whole of the British navy goes over to oil. This latter was hastened by the ease with which oil-fuel can be taken aboard in mid-ocean by simply running a hose between the tanker and the war-ship. The relative quickness in loading the fuel assists in economising time even to Merchant Vessels, while the simplicity of control, the clean-

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[*] The following tonnage figures of the different construction materials in the world's shipping are quoted from Riegel. Op. Cit. p. 31.

	Wood.	Iron	Steel.
	In	million	tons
1890	7·053	10·517	4·435
1900	4·009	7·398	17·508
1910	2·544	4·548	34.728
1915	1·920	3·353	43·912
1919	3.513	2·294	45·111

[†] "Sometime ago the New York Ship-building Company purchased two 6000 ton steamers from the United States Shipping Board, for conversion, and the first of these will shortly be ready as a motor-ship. x x x x It is understood that the vessels were purchased at about £ 3 per ton deadweight and that the total cost, including the purchase price, will amount to rather under £ 16 per ton." *The Times Trade Supplement*, April 28, 1923.

[‡] Cf. Riegel, *Merchant Vessels* p. 119.

liness in operating, and even cheapness in cost made the oil preferred for the tramp as well as the liner. While the bunker place reserved for coal reduces the carrying capacity of a vessel, oil may be stowed away in any place that may not suit cargo of a given type. Actually also, the amount of space occupied by oil fuel is less than that wanted by coal, it being only 60 per cent. of the coal fuel to do the same amount of the work.* Oil being 50 per cent. more efficient, in consequence, as the vessel can carry greater fuel on board without affecting her cargo space, she would be able to make longer through runs with fewer stops, unlike as was necessary before for coaling. This will obviate the great difficulties—which not infrequently generated political complications of the most serious type—involved in the search for convenient coaling stations by every ambitious maritime power, though we cannot quite say that the ambition to control the oil out-put of the world does not find a place in modern politics. The oil-driven vessel, finally, has the greatest economy in the reduction of the working expenses, by being able to dispense with a whole lot of firemen and stokers, the saving in their board and wages alone would be a sufficient temptation for conversion from coal to oil, and from steaming to internal combustion; while the additional space obtained by this economy could be used for passengers or cargo, as the case permits. The following calculation of saving by oil on one of the largest steamers in the world is as painstaking as it is interesting :— †

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* The actual economy is much greater in an oil-driven motor ship than an oil-steamer as the following from the *Times Trade Supplement* of April 28, 1923 proves :—

"The first of these conversions will be completed in the course of the next few weeks. The vessel in question is the Seekonk, a craft of 7,800 tons deadweight, whose original installation of oil-fired boilers and geared turbines gave her a speed of 10½ knots on a fuel consumption of 27 tons daily. A four-cycle long-stroke engine of the Burmeister and Wain type, built by William Cramp and Sons' Ship and Engine Building Company, has now been installed. It develops 2,300 i.h.p., or 1,800 b.h.p., and is expected to propel the vessel at the same speed as the geared turbine plant on a consumption of 7 tons daily. **If this estimate is realized there will be a saving of 20 tons of oil per twenty-four hours.** More over for the same radius of action it will be possible to carry nearly 1,000 tons more cargo than with the steamer burning oil. Actually, however, the radius of the motor-ship will be greater than that of the steamer, and the additional cargo capacity will be in the neighbourhood of 500 tons. The engine is of a standard design now being built both in Denmark and in this country, and, having a speed of only 85 r.p.m. and is specially adapted for single-screw ships."

† The following comparative statement of the crew for a ship of 10,000 tons deadweight according to different types of fuel and engines is most instructive.

Crew required.

For Diesel Engine.		For Oil-Burner Steam-Engine.	For Coal-Burner Steam-Engine.	
Chief Engineer	...	1 Chief Engineer	1 Chief Engineer	... 1
Asst. "	...	3 Asst. "	3 Asst. "	... 3
Oilers	...	3 Oilers	3 Oilers	... 3
Wipers	...	3 Wipers	3 Wipers	... 3
Storekeeper	...	1 Storekeeper	1 Storekeeper	... 1
Machinist	...	1 Firemen	3 Firemen	... 9
Electrician	...	1 Deck-engineer	1 Deck-engineer	... 1
		Water-tenders	3 Water-tenders	... 3
			Coal passers	... 3
		13	18	27

> "This vessel [the Mauretania] consumes about 600 tons of coal per day, fed by hand at the rate of 25 tons per hour, so that a round trip requires provision of about 11,000 tons. By the use of oil about 3300 tons of liquid fuel would be substituted for the coal, all of which could be carried in double-bottomed tanks and the space otherwise occupied released for cargo, the receipts would be increased by at least $ 30,000. But in addition, by mechanical firing, the stokehold force could be reduced from 312 to 80 men, a force adequate to attend to oil-burners and regulate the feed water, releasing space for about 200 third class passengers. At $25 per head this would add $ 5000 to the income. Furthermore, with coal firing, it is necessary to draw about 32 of the 192 furnaces every watch to remove clinker and for general cleaning, so that the aggregate energy is reduced from 68000 horse-power to 58000 horse-power. By oil the steam-raising capacity would thus be increased by over 15 per cent., which would save 8 or 10 hours in the voyage. At present a large force is required to bunker the coal, and 20 hours of time are consumed in the process, while with oil, the fuel required can be taken on in 6 or 8 hours without dust or noise."*

Oil, of course, has, no doubt, its own disadvantages, such as relative costliness compared to coal, and the absence of suitable fuel stations.† But the high price of to-day is largely due to artificial considerations as well as the inadequate exploitation of the oil regions of the world, not to mention the possibility of oil-distillation from coal. The price may, indeed, be still further increased by the development of monopolistic conditions, though the existence of marked international rivalries seems to be a sufficient guarantee against too stiff a monopoly. We have already referred to the possibility of power—alchohol from vegetable substances, which must also mitigate the hardships of a monopoly in the mineral oil. The fuller exploitation of all sources of oil fuel will, it may be hoped, result in a reduction of the price, that would offset this temporary disadvantage of oil versus coal. And even while this disadvantage lasts, it cannot altogether counteract the other resultant economics in space &c., which even now makes oil so much more preferred that in every important fleet considerable projects of conversion from coal to oil are in hand. And as regards the difficulty of insufficient fuel stations, that is only a matter of time. With the more extensive use of oil the fuel stations will necessarily follow as economically disposed as possible. For the present, the point already noted, viz: that the larger radius of operation possible for an oil-burning ship with internal combustion engines would render her independent of the need to have a large number of coaling—or fuelling—stations en route.

CXX. FACTORS IN OCEAN FREIGHT-MAKING.

During a stage of transition, when the whole business is passing from one kind of fuel to another, it would be difficult to set out fully the main considerations that might be alleged to effect the ship-owner in making out his freight charges. For the items relating to the cost of production are so shifting. The cost, indeed, is not quite a decisive factor, as it is really insignificant. Take the case of a ship of 7,000 gross tons with 10,000 tons dead-weight capacity. With the most upto date geared turbine internal combustion oil-burner engines, she would need about 15 tons of oil a day, as against 60 to 70 tons of coal on a quadruple expansion, and costing about £ 50,000 to £ 60,000 to make. Her crew would be about 13 men all told costing £ 25, let us say, per day to about 45 men if she is a coal burner costing £ 65 per day. Let us put the working cost of a round voyage of 12,000 knots for such a ship as:—

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* Riegel op. cit. p. 123.

† The price of petrol was 15 annas a gallon in Bombay in 1917-18. It is now Rs. 2 per gallon, and was last year as much as Rs. 2-5.

Cost of working a 7,500 ton (gross) boat costing Rs. 10,00,000 on a round voyage of 12,000 nautical miles taking 20 days each way.

With Coal.

		Rs.
1	Fuel @ 60 tons per day and Rs. 25 a ton	60,000
2	Wages for 2 months (crew 45.)	60,000
3	Stores	6,000
4	(Suez) Canal charges ...	20,000
5	Harbour dues, Repairs &c.	20,000
6	Interest @ 6 per cent. ...	10,000
7	Depreciation @ 5 per cent.	6,000
	Total ...	1,82,000

With Internal combustion oil-engine.

	Rs.
Fuel @ 15 tons per day (oil @ Rs. 50 a ton)	30,000
Wages (crew 15)	20,000
Stores	2,500
Canal charges...	20,000
Harbour dues, Repairs &c. ...	20,000
Interest @ 6 per cent. ...	10,000
Depreciation @ 5per cent....	6,000
Total ...	1,08,500

If the vessel carries 10,000 tons there and back at the lowest freight of £ 2 per ton for such a voyage and back, it would earn in freight alone £ 20,000=Rs. 3,00,000. On the basis of the cost, the freight will probably be from 2/3 to one-half of the lowest old freight scale; and, by graduating in the scale according to the value of the traffic, there would still be a margin of profit for the ship-owner. A steamer doing four such voyages in the course of a year will lift 80,000 tons; while, with 100 such steamers or motor-ships, most economically employed, practically the whole foreign trade of a country, like India, could be accomplished.

But the cost is not the only—nor of even the most effective—consideration in freight quotation. The element most decisive is the availability of business. The existence of Conferences and the consequent limitation or regulation of traffic has made the carriage of goods by sea an effectively, close corporation. The old lines have fixed their freights, not according to considerations of the cost of rendering the service, but rather according to those of the maximum gain to themselves. With the monopolistic conditions, they necessarily fix the freight according to the law governing monopoly prices in economics,—which means such rates as would bring the greatest profit to themselves. And on routes where the Conference lines have no footing, the traffic is either too poor, or too intermittent or too much out of the way to tempt any but the poorest kind of tramp steamers to go in far that. There are cases, indeed, involving very considerable tonnage and quite regular traffic, where the Conference lines have no standing whatsoever. But these are cases of State subsidised fleets, both in construction and in operation, as, for instance, in the case of Japan or France.* Whether, however, competition exists or not, the ship-owner has in every case of open business to consider the extent of freight available—outwards and homewards—and see how far ultimately his cost would be covered. Wherever state aid to shipping is intensive enough, the ship-owner carrying goods to such places must contemplate the possibility of empty or half-loaded vessel on the return voyage; and so the freight earned outwards and back will have to suffice to make up the cost on both voyages. Again, in countries exporting principally manufactured goods, which, though very valuable, are not bulky enough to give a full load to the total shipping, the balance must be found in some cheap and bulky articles, if the ships are not to go out insufficiently loaded. England, until quite recently, used to do the greater portion of the world's ocean carrying business. For herself she was largely an exporting country of manufactures; the balance of her shipping was, however, idle left not by the possibility of immense coal exports aggregating hundreds of million tons. With the advent of oil, that position would have to be recast. America, with two-thirds or more of the world's present oil out-put, is in a position most effectively to capture that business. Unless, however, a country is in a position to provide sufficient cargo for a round trip, the national aid to shipping will be considerably a waste. Moreover, in these days, when the leading commercial countries of the world are intent upon developing an export trade as largely as possible in manufactures, the outward cargo may be easily available for a national mercantile marine; but on terms that may not be paying at all. The state helps shipping, so that shipping assist the country's industrial development. In that case ship-owners, helped by the state, would be expected to quote terms, which would have to be framed, not so much with a view to yield the greatest possible profit to the ship-owner, but rather so as to render the greatest possible service to the industry. The practice of quoting through rates, rail and ship combined, from the point of origin in one's own country

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† The system of state aid to national shipping has been very compactly summarised in Mr S. N. Haji's, *pamphlet No. I of the Indian Shipping Series entitled State Aid to National Shipping*, wherein he points out that even in the free-trading country of Great Britain official aid to shipping is not unknown, even though the Navigation Laws have been abolished. Under the existing regime, this aid takes any one or more of the following forms:

(1) Appropriation for naval Reserves;
(2) Admiralty subvention;
(3) Government loan at low rate of interests;
(4) Mail subventions;
(5) Colonial subventions;
(6) Indian subventions.

In France, bounties on construction, equipment, navigation and shipping are, in addition to mail and other subventions, payment of Suez Canal dues, preferential railway rates and reservation of coasting trade; while in Japan the same series of bounties is repeated. The United States is the latest and the most determined nation to develop a national shipping on a vast scale spending something like 25 million dollars per year to encourage this work.

to the foreign destination of the goods, is an instance in point, whereby both the railway and the ships are made to forego a share of their normal economic profit for the benefit of the general national industry, for the building-up of a profitable branch of one's export-trade. Another such instance may be found in the alternative given to the shipper to pay freights according to actual weight or cubic space. Forty cubic feet are taken to represent a ton of weight usually; but articles, like agricultural instruments, for example, may take up a great deal of space for comparatively very small weight. If an alternative is given to the shipper, he would, of course, choose the rate most profitable to himself, which would thus encourage his industry, even though it may not be paying to the ship-owner. Manufactured goods, therefore, though relatively more valuable per a given quantity than the same quantity of raw materials, or food stuffs, or fuel,—and, as such, admitting of some differential freight-charging on the railway model of charging what the traffic can bear,—are yet removed from the sphere of such charging by definite state regulations to the contrary. What is lost in this way may or may not be made up by the subsidy or subvention or any other indirect aid offered by the same state to its national shipping. But the fact remains that the present organisation of the carriage of goods on the ocean highway makes the availability of traffic—and the local considerations affecting it—the most decisive factor in freight making.

The cost of running the volume of traffic, as well as its nature and conditions, are thus the main considerations to-day in freight regulation. We have called above the cost of running an insignificant factor; but the remark must not be misunderstood as though we considered the cost of operating as not even equal to fixing the lower margin for the freight quotation. Thus reduction in cost brought about by the substitution of oil for coal must and will certainly have an effect upon the freights all over the world; as also the reduction in distance between ports by the cutting of canals. * But against the lower limit of the freight quotation afforded by the cost of running, the higher limit must also be considered. It is made up by the value of goods to be carried and the regularity or otherwise of the traffic furnished, tempered by the existence of competition or of the conference principle, or finally, of state conditions of national mercantile marine development. Between the two there is room for considerable variation; and the problem of freight-making consists in fixing the limits of that variation. In the next chapter we shall apply these conditions to the special case of the foreign and coastal shipping for the carriage of goods to and fro India.

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* "The new way to the Far East, (i. e. *via* Suez Canal) effected a saving in distance of from 3000 to 4500 miles; for instance, from London to Bombay by the Cape is 10700 miles, but *via* the Canal it is a little over 6200; the voyage to Yakohoma is reduced from 14,300 to 11,100 nautical miles. If the freight for carrying one ton of goods 1000 miles by steamer be reckoned at from 2/6 to 3/- the saving effected on the present tonnage passing from East to West and *vice versa*, mounts up to a very considerable sum annually." Kirkaldy and Evans, Op. cit. p. 288.

Chapter XX.

OCEAN TRANSPORT AND INDIAN TRADE.

CXXI. REVIEW OF THE INDIAN TRANS-MARINE CARRIAGE OF GOODS.

The information relating to the ocean-carriage of goods to and fro India is of the scantiest description in our official records and publications on the subject. The latest available review of the trade of India[*] does, indeed, discover the fact that in considering the statistics of Imports and Exports, "it has also to be remembered that the freight and insurance charges appear in the Import figures, and not in the Export figures." But though they have realised at last this peculiarity of all trade figures, they have never made an attempt at estimating, even approximately, the actual freight charges—or the "Invisible Imports" paid for by India."[†] The detailed figures of the trade of India also are most disappointing to any one desiring to find out the total freight charge paid by this country to foreigners for want of a national mercantile marine of her own. They give us quantities in a medley of form that is too bewildering by its sheer variety to be of any use. And even if one sat down to reduce this jungle of quantity figures to some kind of a common denominator, it would still be impossible to work out the freight bill. For though fairly reliable freights are given by the various Chambers of Commerce as well as by Government publications above-named as regards the outward freights from Bombay, Calcutta, Rangoon or Karachi to a number of ports, we have no means of ascertaining the actual freights inwards to Indian ports. The English papers—like the *Statist* or the *Economist* or the *Fairplay*—give a general freight index which is no indication of actual rates charged or chargeable upon the Imports of India. At most We get coal-freight from Cardiff to Bombay &c; while there is some sort of an understanding between shipping companies and the piece-goods merchants of Manchester for a uniform rate. For all the other commodities we have practically to guess.

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[*] No. 1752 of the Commercial Intelligence Department of the Government of India p. 1.

[†] There is appended in every annual trade review of India a chapter and table relating to the *Balance of Trade*; but no place is found in that balance for the invisible charges of freight and foreign investments. The subjoined table supports the contention for an immediate reform in this direction. In Lakhs of Rupees.

	Pre-War average.	War average.	1921-20.	1920-21.	1921-22.
Exports of Indian merchandise (private).	+2,19,50	+2,15,97	+3,12,28	+2,40,01	+2,31,38
Re-exports of Foreign merchandise (private)	+4,62	+8,14	+17,78	+18,04	+14,06
Imports of Foreign merchandise (private)	−1,45,85	−1,47,80	−2,09,80	−3,35,60	−2,66,34

CXXII. THE FREIGHT BILL OF INDIA.

The problem of finding the freight Bill of India is thus doubly difficult. We have no adequate, official, uniform quantity figures for the imports from India.* And we lack any detailed information as to inward freights on imported goods. The following estimate, checked, in so far as it can be, by the subjoined table, is worth reproducing:—

> "The total exports of merchandise from and imports into India may be estimated at 6,600,000 and 4,600,000 tons. The freight rates from India being taken at 22/- shillings according to the figure of the London *Economist*, we get the export freight at £ 7,260,000. As regards the imports, an average freight of 30 shillings per ton (the freight for Cardiff coal to Bombay being about 15 shillings throughout the year) gives a total of £ 6,900,000 as gross freight charge on the Indian imports. The two together make £ 14,160,000=Rs. 21,24,00,000.
>
> It is worth noting that the figures arrived at from the returns of the values of merchandise in the foreign trade of India corroborate the above figures. The total value of the foreign trade of India amounts in round figures to Rs. 520 crores, 300 crores being exports and 220 being imports. It is usual to regard 10 per cent. of the value as sufficient to cover the freight, insurance, commission &c. (Hobson in the *Economica*) Of this, however, according to Sir Robert Giffen, 2½ per cent. should be allowed to insurance, commission &c. thus leaving 7½ per cent. of the value of com-

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(Continued from p. 426.)

(1) Balance of trade in merchandise	+78,27	+76,31	+1,20,26	− 77,55	−20,90
Gold (private)	−28,87	−7,81	−10,97	+8,88	+2,79
Silver (private)	−7,21	−2,99	+15	−7,59	−14,95
(2) Balance of transactions in treasure (private)	−36,08	−10,80	+10,82	+1,29	+12,16
Council Bills and Telegraphic Transfers paid in India	−41,35	−34,36(*a*)	−36,81(*b*)	...	...
Sterling Transfers on London sold in India	+5	+5,50	+18,58	+28,55	...
Transfers of Government securities ...	−87	−38	− 1,34	−56	+1,53
Interest drafts on India in respect of Government of India securities	−44	−30	−28	−23	−27
(3) Balance of remittances of funds.	−42,61	−30,14	−19,85	+27,76	+1,26
Total visible balance of trade.	−42	−35,37	+98,59	−48,50	−31,80

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* The number and tonnage of vessels entering and leaving British Indian ports is a guide, which, however rough, might give some idea of the volume of the business.

Entered.

	No.	Thousand Tons.
Pre-War Average ...	4316	8,116
War Average ...	4660	5,749
1919-20 ...	4072	6,498
1920-21 ...	4331	8,046
1921-22 ...	3948	7,642

Cleared.

	No.	Thousand Tons.
Pre-War Average ...	4251	8,100
War Average ...	4929	5,925
1919-20 ...	4156	6,502
1920 21 ...	[illegible]172	7,427
1921-22 ...	4089	8,013

The grand total of tonnage in the last 3 years averages 14,71,900 tons. But the vessels need not all be fully loaded. The estimate of total tonnage of our foreign trade may thus be placed somewhere about 1,250,000 tons.

The War-time increase in the number of vessels was due to the increase of wooden sailing vessel in the business.

modities as the cost of transport. 7½ per cent, of 520 crores amounts to 39 crores. If to the foreign trade figures, we add the earnings of British shipping companies in the coastal trade of India, *i. e.* Rs. 10,69,35,480, we get a total of close upon 33 crores of aggregate freight bill of India." *

The subjoined table of the detailed freight Bill for the foreign trade of India is compiled under the following conditions:—

(1) The quantity figures are taken from the official *Annual Statement of the Sea-Borne Trade of British India with the British Empire and Foreign Countries* [No. 1674, Department of Statistics, 1922]. Wherever possible however, they have been converted to some uniform standards for purposes of freight calculation,

(2) The outward freight is taken as given in the annual Review of the Trade of India for 1921–22, or from the publications of the Bombay Chamber of Commerce wherever usually the freight is calculated as to ports in the United Kingdom, though in some cases Japanese ports have also been taken into account. This procedure militates seriously against the accuracy of our Bill, as only about 40 p. c. of our exports go to the United Kingdom. Wherever no freight quotation was available, the calculation has been made at the lowest rate to err, if at all, on the safe side.

(3) The inward freights on imports, bar coal freight from Cardiff to Bombay, are not available. The rate we have taken is indicated against each item,-usually the lowest.

(4) As the value figures show, the details do not exhaust all the items in the foreign trade of India both imports and exports. Adding a proportionate freight for the balance, we get:—

(*a*) for exports, £8,062,000 at the 1921–22 freight rates on the total exports, and

(*b*) for imports, £ 6,632,000 at the same calculation and on the same data.

The total bill thus works out at £ 14,092,00c—Rs. 21,13,80,000 †

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* This estimate was prepared for me by my friend Mr. S. N. Haji, whose practical experience of shipping business makes it of more than academic interest. He estimates the coasting freight thus:—

"The total cargo carried by steam vessels along the coast of India during 1922-23 may be estimated at 59,40,860 tons. This figure approximates the actual results by adding up the total qualities of all commodities carried from one maritime province to another during 1920-21 (*Annual Statement of the Coasting Trade of British India for* 1921). Taking Rs. 18 per ton. the standard average rate for the year, as the rate of freight along the coast of India, we get Rs. 10,69,35,000." See the statiest of May '9, 1923 for a critique of Mr, Haji's works

† The freight for jute, cotton and seeds (Exports) is as given in the annual review of the trade of India for 1921-22 p. 74 Table No. 51 as in April 1922 (No. 1752 Commercial Intelligence Department). For Wheat, Tea, Hides, Lac, the freight is given as in 1920-21 (*Vide* Annual Review of the Trade of India for 1920-21 Table No. 78 p. 91).

On the Imports the Freight has been taken uniformly at 30/- per ton, except coal @ 14/9 d.

1921–1922.

IMPORTS.

Figures are in Thousands.

	Article.		Quantity.	Value. Rs.
1	Apparel ...	Tons	100	1,12,63
2	Building and Engineering materials ...	Nos. (1,82,34).	138	2,00,69
3	Chemicals ...	,, ...	51	1,90,88
4	Drugs ...	,, ...	3	1,58,37
5	Dyeing and Tanning substances ...	,, ...	4	3,20,52
6	Fruits and Vegetables...	Nos. (2,73,15	58	1,68,00
6a	Salt ...	Tons.	472	1,51,68
7	Glass and Glassware...	Tons. Nos. (2,73) Feet. (12895)		2,22,49
8	Liquors ...	Gls. (4507)		3,76,62
9	Matches ...	Gross (13581)		2,08,80
10	Motor cars, motor cycles and parts ...	Nos. (4209)		2,71,73
11	Paints and Painting materials ...	Tons. ,, ...	14	1,23,96
12	Provisions and Oilman's stores ...	,, ...	5	2,70,36
13	Rubber ...	,, ...	0	1,51,68
13a	Paper and Paste board.	,, ... Nos. (265)	35	2,34,11
14	Spices ...	Tons.	8154	1,92,60
15	Stationery ...	....		91,37
16	Tobacco ...	,, ...	2	1,65,06
17	Wood Timber ...	,, ...	56	1,15,08
18	Cotton goods ...	(yards 10,90,80) (No. 3)	24	60,38,11
19	Machinery ...	Nos. (24+7)		34,25,51
20	Sugar ...	Tons.	783	27,50,28
21	Iron and steel ...	,,	613	21,13,38
22	Other metals ...	,,	38	5,06,43
23	Silk ...	(yards 15)	1	4,33,93
24	Railway Plant ...	Tons.	148	18,91,06
25	Grain and Pulse ...	,,	451	9,35,59
26	Oil ...	Gls. (1234,32)		7,56,14
27	Hardware ...	Lamps 1357, stores (28) Glass 13 Safes 2		5,91,90
28	Coal and Coke ..		1501	5,85,05
29	Instruments ...	Harmoniums only 154 Pianos ,, 320 Records & machines 31,000 Talking machines 4 000	0 0 31 4	5,14,81

	Tons			Freight rate £. s. d.		Total Freight £.
Coal etc. Total Tons	1,501	...	Value	@ 0 14 9	on Tons	1,05,40,00
Other materials ...	2,961	...	Rs 2,32,68,82	@ 1 10 0	on Tons	4,44,10,00
	4,462					£ 5,495,000

1921-1923

EXPORTS.

Figures are in Thousands.

Article.		Quantity.	Value. Rs.	Freight. £. s. d.
Cotton-raw & manufactured ...	Tons.	371		
	Yds.	(159,969)		
	Yarn	36	69,61,90	
Jute ...	Tons.	468		1 1 8 per ton. (From Calcutta to London.)
	Yds.	(1,120,568)		
Rope ...	Tons.	2		
Bags ...	Nos.	(386,710),	44,04,49	2 0 0 per ton or 50 cft.
Grain Pulse and Flour.	Tons.	1653	29,98,98	1 19 0 per ton. (From Calcutta to London).
Tea ...	„	140	18,22,02	3 15 0 (50 cft.) 5 10 0 (per ton).
Seeds and Oils ...	„	735		
	Gls.	(24,545)	20,25,03	1 5 0 (per ton).
Lac ...	Tons.	22	7,91,58	1 9 7 (to Lon.)
Wool-raw, manufactured.	Raw.	14		
	Cloth.	13		
	Tons	27	3,25,78	1 1 8 (as per cotton.)
Opium ...	„	1	2,05,42	
Metals and Ores ...	„	6,47	3,55,29	1 10 0
Hides, Skin, Leather...	Raw	48		
	Leather	10		
	Tons.	58	10,01,51	3 6 3 (per 50 cft,)
Coffee ...	„	12	1,39,08	5 10 6 (per ton)
Dyeing & Tanning Substances ...	„	70	1,32,22	2 10 0 („ „)
Fodder, Bran, Pollards.	„	1,85	1,14,60	1 19 4 („ „)
Manures ...	„	1,05	1,16,77	2 0 0 („ „)
Oil cakes ...	„	1,13	1,36,57	2 0 0 (50 cft.)
Paraffin wax ...	„	28	1,27,70	2 0 0 (per ton)
Spices ...	„	17	1,00,36	2 0 0 („ „)
Articles not specified sent by post ...		......	3,10,11	......
Total ...				
Tons ...		4690	Rs. 2,20,69,81,000	£. 7,148,000

Total freight on the trade analysed—£12,643,000

CXXIII. AN INDIAN MERCANTILE MARINE.

With so much trade, India cannot regard the paucity of business as a decisive factor to explain the absence of an Indian Mercantile Marine. For want of such a fleet, India has to pay a tribute of some 30-35 crores annually to the foreigner, which might well be kept in the country to enrich the country. On both sides of our trade there are items which could safely guarantee to Indian ships sufficient cargo either way, were an intensive policy of developing a national mercantile marine adopted. The stores of the Government of India alone, aggregating in value some 20 crores, ought to suffice to ensure an adequate homeward cargo to the Indian ships in foreign ports, not to mention the carriage of troops and mails, even if we suppose that an active policy of retaliation will be adopted by the nations we deal with simply because we have determined to do our own carrying business. And a policy of substantial rebates from the protective customs duties on goods, carried to and fro India in ships of Indian ownership and Indian build, ought to guarantee, even apart from the public stores, sufficient cargo to keep a respectable fleet fully employed. It has been estimated that a hundred steamers of 5000 tons each would suffice to do the whole of our coastal carrying trade; and, we may add, another similar fleet, economically disposed, ought to be equal to handling the whole of our foreign trade. The total tonnage thus needed to do the entire ocean carrying business of India would be scarcely above 1,000,000 tons, which, at present rates, would not cost more than £ 10 million or Rs. 15 crores to build or purchase. But the income from such a capital outlay would aggregate, at the lowest rates of freight, Rs. 30 crores, which, allowing for all kinds of expenses, ought to leave a substantial profit to the state undertaking the business. In the subjoined memorandum of my evidence before the *Indian Mercantile Marine Committee*, I have elaborated in detail the foregoing ideas for a constructive policy of ship-building and ship-owning in India. It is only when, in spite of the indirect methods of encouragement having been applied, the ship business does not flourish in India, that recourse may be had to construction and navigation subsidies or bounties; though personally I do not think that it would be necessary.

As already declared in the following scheme, I would personally prefer, for a variety of reasons, that this great new enterprise of immense national importance should be undertaken by the State collectively. But there are reasons why the Indian public opinion, such as it is to-day, may not adopt this suggestion. If private enterprise is resorted to and supported by direct and indirect methods of encouraging the ventures, I see many unpleasant possibilities of rivalries of a suicidal nature, which could only be avoided by Government fixing the minimum rates for the carriage of goods to prevent cut-throat competition. But parity of reasoning would then demand that Government also fix the maxima of rates to prevent shippers being exploited by the ship-owners. However the machinery for such rate-fixing is non-existing and most difficult to invent. Besides, the experience of private ventures so far in the field is by no means so encouraging as to justify us in advocating a total surrender of the legitimate profits the community could expect from doing the community's own business in the interests of private *entrepreneurs*. For the rest, the memorandum speaks for itself on every important question of detail.

EVIDENCE BEFORE INDIAN MERCANTILE MAREIN COMMITTEE.

Question 1. What is your opinion regarding the present condition of the Shipping industry in India?

I would divide the answer to this question into two parts, according as one considers shipping industry in the sense of ship-building, or in the sense of carriage of goods by water. In both cases, the business I consider to be in a ruinously backward condition. It is true that goods both to and from India are furnished with adequate carriage facilities at present. But these are mostly of non-Indian origin; and, from the standpoint of Indian national economy, it only means that these facilities cost us annually somewhere from 25 to 70 crores of rupees by way of freight charges, and to that extent constitute a net drain from India which wholly escapes attention or calculation. Hence, even if the ship-building industry proper, which must be admitted to be the backbone and mainstay of a national Indian shipping business, is not considered, and attention is concentrated merely on the business of the ocean-carrier, India would save the annual drain of the freight charges, if the carrying enterprise is undertaken by Indians.

Question 2. If you consider the situation unsatisfactory, what, in your opinion, are the conditions in India at present which militate against the development of shipping enterprise by the people of this country?

Chief amongst the conditions which, in my opinion, militate against the development of shipping enterprise by Indian people must be considered to be the opposition of the foreign shipping concerns now operating in Indian waters and enjoying a practical monopoly of Government as well as private business. Thanks to the Navigation Laws of England in the eighteenth and the earlier part of the 19th centuries, the Indian shipping was ruthlessly annihilated, in proportion as India came under the political supremacy of Britain and was governed to minister to British national interests. With Indian shipping out of the field, and with a Government inclined always to look favourably upon them, the foreign concerns found the carrying trade of India entirely at their mercy; and they were not slow to evolve expedients which would help to keep that trade an absolute or practical monopoly in their hands. The Deferred Rebate System is one of such expedients. While it is theoretically true that such expedients militate equally against the latest competitors of every nationality, in practice it is only the Indian competitor that has to suffer; since he does not receive any countenance or support from his Government, which the foreign competitor commonly receives, as a matter of course, from the complete reservation of their own coastal trade, right down to direct bounties and subventions for ship-building and navigation. The shipping companies have in self-interest, had to come to some arrangement among themselves, in order to regulate or portion out the carrying business of the world amongst all the competitors that had asserted themselves. The result is unavoidable. The latest to come on the field must suffer; and Indian shipping *entrepreneur* has, therefore, no chance for a fair fight to make good his position. He has to play with an opponent, who uses loaded dice, and has absolutely no voice in framing the rules of the game.

But while giving the pride of place to the jealousy of the foreign monopolists as the foremost amongst the effective causes working against the development of Indian shipping enterprise, I cannot overlook the attitude of the Government as contributing still more effectively to the woeful backwardness of the Indian shipping industry. In appearance, it is a policy of simple inactivity. In reality it works as a barbed wire obstacle against the Indian. For, all the natural and legitimate advantages, which an Indian ship-owner plying in Indian waters and working the Indian business could reasonably aspire to, are denied him by a policy of criminal indifference, if not definite hostility, to Indian interest. I admit the indifference or hostility, with which I have charged the Indian Government in this regard, is not directly traceable to personal factors, analogous to the possibilities of mischief, resulting from the common and culpable practice of recruiting the directors for the Indian Railways from amongst the retired high officers of the Government of India. Indian public opinion unreservedly condemns this practice, and the Indian Government has entirely condoned it. But, because the unauthorised and improper official representation of the Indian Government on the directorate of foreign shipping concerns does not take place so frequently as in the case of Railways, it does not the less follow that such concerns are behindhand in procuring extravagantly liberal terms for themselves in matters of conveyance of mails, stores, and troops for and on account of the Indian Government. In sheer fairness, in mere self-defence, and simply as an irreducible minimum of national economy, all the abovenamed business ought to have been reserved for the Indian ship-owner. But because Government in India still elects to worship the over-turned idol of *laissez faire*, the Indian ship-owner cannot expect to survive the competition he must put up with.

Question 3. Can you suggest any measures to remove or mitigate existing difficulties or disabilities, without having recourse to State aid, and to encourage the people of this country to embark on shipping enterprises?

Yes. I would suggest

(*a*) an immediate delegalising of the Deferred Rebate System, and the consequent annulment of all contracts involving that system, if the parties or either of them choose to do so;

(*b*) acceptance of the principle of monopoly of coastal trade reserved for the Indian ship-owners, which may, for the sake of convenience, be given effect to progressively in a definitely limited period. This might involve consequential alterations in the Company Law of India; and a new definition, of what constitutes an "Indian". Personally, I would confine the coastal monopoly only to Indian capitalists by birth as well as by residence

(c) the transport of stores purchased abroad for the Government of India, as well as the different provincial Governments, Railway Companies, and other semi-public bodies, like Municipalities, Port Trusts etc. should be so ordained as to go largely, if not wholly, and by preference of set purpose, to Indian ship-owners. India purchasing stores worth anything over Rs. 20 crores a year can easily afford sufficient business to keep in profitable working a line of cargo and passenger vessels at preferential or even competitive rates;

(d) I need not add the business of Postal mails, as a natural legitimate monopoly for Indian-owned ships, if only for the sake of the prestige that such a consideration would imply to the line benefiting thereby.

The same principle may be given effect to in regard to private business also. If customs duties are modified in favour of goods brought into or taken away from India in Indian bottoms, so as to afford a marked preference to the latter, a very effective and substantial encouragement can be easily and most economically afforded to Indian ship-owners, who may then be trusted to develop a considerable mercantile marine flying the Indian flag.

I regard all these expedients as not involving " state aid " in conformity with the question. For, I consider that the " state aid " meant in this question must be of an active type exemplified by bounties and subventions.

Question 4. Are you of opinion that State aid is necessary or desirable to promote the satisfactory development of shipping industries by the people of this country ?

Yes, emphatically. For, at least in the initial stage, the various kinds of indirect encouragement enumerated in answer to Q 3. will not be enough.

Question 5. If you consider State aid necessary or desirable, what method or methods do you advocate ?

I would advocate bounties on ship-building, somewhat on the lines adopted by Japan, as well as on navigation, common in France as well as Japan. I would also accept the principle of preferential treatment in customs duties to goods carried in Indian bottoms on the lines of the proposed American Shipping Subsidy legislation.

These are forms of State aid I would support, if it is found on reflection that the principle of private enterprise is indispensable in the development of this industry. Personally, if I did not distrust the present Government as much as I do, equally as regards the personnel, the motives, and the qualifications, *I would definitely advocate direct State enterprise by the State itself*, somewhat on the lines familiar to the Indian Government in the matter of Railway enterprise, and more recently illustrated by the venture of the Australian Government. Instead of making loans to ship-builders, as in Belgium, or guaranteeing a minimum return to private capitalists, as our Government did in connection with the Indian Railways, it would be more economical, as well as administratively more simple, to convert our present public dockyards into proper shipyards. It may be more profitable to commence the venture by buying ships, in the first instance, ready made, in a number large enough, let us say, to cope with the immediate and indispensable business of Government themselves in the matter of transport of mails, stores etc. Further extension of the business may then take place by carrying out a building programme that will be large enough to cope with the carriage of private goods and passengers by sea as well. Such a policy, honestly adopted and worked, would save the needless burden on the tax-payer that a system of bounties and subsidies would necessarily involve for the benefit of the private capitalist. It would also dispense with the temptation, now held before a private *entrepreneur* in this field, to come to some sort of an understanding with the monopolists, and join hands with the latter in the reprehensible enterprise of bleeding white the Indian traders. The economics of freight-charges have yet to be analysed and standardised, as contradistinguished from the economics of railways rates, which are already fairly well understood. This can never be achieved while private enterprise dominates the field. Finally, it would be administratively ever so much more simple to arrange those forms of indirect public assistance in the preferential treatment in the Customs schedule that I have enumerated above. As there is little or no vested interest in this field of Indian origin, I have not considered, and do not think it necessary to consider, the question of compensating existing interests likely to be damaged by such a policy. And in all the above advantages, *I have not mentioned the possibility of direct profit to the State*, which the Government of India very badly needs in the present state of its finances, as likely to be served from the adoption of this policy. At present prices, a capital of Rs. 10 crores, which could be easily raised by a Government habituated to borrow Rs. 50 crores annually, would suffice to buy ships equal to cope with the entire coastal trade. Properly worked, this alone may bring to the State, after paying all expenses including interest on capital, a gain of nearly a crore, if not more. The passenger business and the carriage of the more important portion of private merchandise may be subsequently and progressively captured by publicly-owned ships, built in India in the State dock-yards.

Question 6. Do you advocate any legislative measures for the purpose of the satisfactory development of shipping industries by the people of this country and, if so, what should the legislative measures be?

I have already indicated the kind of legislation I would advocate in regard to shipping contracts in general, and in regard to the Company Law, the Custom duties, and the coastal trade in particular.

Question 7. Do you favour the grant of navigation bounties to vessels owned by the people of this country, and on the Indian register and trading (*a*) between Indian ports (*b*) between India and ports abroad, and, (*c*) between ports outside India ?

I would confine the grant of navigation bounties only to cases (*a*) and (*b*). But building bounties may be given to Indian-built ships, no matter where they are plying.

Question 8. Would you, in the case of vessels owned by the people of this country and registered in India, restrict the grant of navigation bounties to specified routes, and, if so, to what routes, and state your reasons for selecting the particular routes you suggest ?

If at all the grant of navigation bounties is to be restricted beyond cases mentioned in question 7, I would choose those routes by preference in which Indian ships have to encounter the rivalry of interests hitherto monopolising the Indian trade by unfair means as the Deferred Rebate System; or the routes in which competition has to be dreaded by foreign lines artificially aided by the Government of those countries, e. g. the Japanese competition in our near eastern trade.

Question 9. Do you advocate any limits as to gross registered tonnage, average speed at sea, and age, for the aforesaid vessels to be eligible for a navigation bounty, and, if so, what limits in each case ?

I would not pronounce definitely on this question, which I consider to be one, rather of administrative convenience, than one involving any fundamental principle of shipping economics. Even if any limits are fixed as dictated by administrative convenience or national economy, they must necessarily be elastic, capable of alteration, according to circumstances.

Question 10. If you are in favour of these bounties, would you advocate for the aforesaid vessels to be eligible for a navigation bounty, and, if so, what limits in each case ?

The same remarks as in question 9 apply here.

Question 11. Would you recommend any additional percentage of increased bounty for extra speed over and above the minimum average speed at sea advocated by you, and, if so, what percentage on vessels engaged in trading as indicated in question No. 7 (*a*), (*b*) and (*c*) ?

Except in the case of first rate passenger steamer, which may at a pinch be serviceable as cruisers in war, I would not specifically encourage, by special bounties, extra speed in vessels.

Question 12. Do you advocate that provision should be made for the gradual reduction of the bounty after a specified term of years ? If so, what percentage of reduction would you suggest and after how many years for vessels engaged in trading as indicated in question No. 7 (*a*), (*b*) and (*c*) ?

On principle, yes. And I think, in practice, the case for a reduction of bounties once paid would have to be decided very much according to the circumstances of the moment. I would not, therefore, lay down a definite term in advance for the final and progressive extinction of bounties; but I would prescribe circumstances, which, if established, would reasonably demand the extinction of the bounties.

Question 13. Would you advocate that Navigation bounties should not be paid to vessels built outside of India unless they have been on the Indian register for a specified period of years, and, if so, for what period?

As navigation bounties have to be distinguished from the building subsidies, on the ground that the former are an aid to capture simply the business of carriage by sea, while the latter help to develop a new and vital industry in India, I would say that provided the requirement of Indian ownership is satisfied, the bounty must not be refused or postponed merely because of the ships having been built outside India.

Question 14. Do you advocate that Navigation bounties should cease altogether after a specified period of years in respect of vessels built outside of India, and, if so, after what period?

The preceding answer renders it unnecessary to reply.

Question 15. Would you advocate that all vessels receiving a Navigation bounty must take on board a certain number of Indian apprentices for purposes of training?

Of course.

Question 16. Would you exclude the employment of (*a*) non-British subjects (*b*) non-British Indian subjects on vessels receiving a Navigation bounty except when vacancies, which it is impossible to fill, occur at a foreign port? If you advocate exclusion, would you reserve any power to the Government to make exceptions?

Yes, subject to the condition that the appointment, that may be made as exceptions to fill a vacancy occurring in a foreign port, is temporary only. Personally, *I would exclude all non-Indians from such employment*, though in the absence of an adequate number of qualified Indians, the exclusion may have to be confined only to non-British subjects in the first five or ten years. On principle there is nothing objectionable in reserving to the Government discretion to make exception to this rule; but my experience of the present Government does not encourage me to extend its field of discretion.

Question 17. Would you advocate the cessation of Navigation bounties in the case of vessels being sold, chartered or mortgaged to non-Indians?

Yes.

Question 18. Under the provisions of the Indian Coasting Trade Act V of 1850, the coasting trade of India is open to all comers. Are you in favour of this policy, or do you recommend any reservation of the Indian coasting trade for the development of an Indian Mercantile Marine and, if so, what?

I have already indicated my opinion that the whole of the coasting trade should be reserved for the Indian mercantile marine, the reservation to be given effect to progressively, as the shipping industry develops.

Question 19. What, in your opinion, would be the effect of any policy of reservation on the Indian coastal trade?

An immediate and effective developement of Indian mercantile marine, Indian owned, though not necessarily Indian built. I do not think there would be any undesirable reaction in the freight rates. But apprehensions in this regard may be adequately safeguarded against, if practical effect is given to a policy of progressive reservation of coasting trade under suitable precautions against the abuse of such a concession. The maximum freight, for example, may have to be prescribed by law, or by executive decree under a general law, as a precaution against abuse.

Question 20. If you advocate the reservation of the Indian coastal trade, would you impose a condition that such ships should give facilities for training Indian apprentices?

Of course.

Question 21. What size and description of vessels, in your opinion, are most likely to be required for an Indian Mercantile Marine?

It is of course difficult to answer this needlessly comprehensive question. If an Indian Mercantile Marine is aimed at, which would do the whole of the Indian overseas business, we would need both passenger ships and cargo ships, liners as well as tramps. The maximum limit of the size would probably be fixed by the depth of the Suez Canal, which would render ships over 20,000 tons burden practically uneconomical for the Indo-European and Indo-American business. The nature, however, of the Indian economic organisation, which is dominated by the small producer and the small trader, leads me to think that we would not need very large vessels for the ordinary requirements of our trade. Speaking as a layman, I think, 5000 tons gross register, or 8000 tons carrying capacity, would be about a fair average for the large vessels doing Indian business successfully with any chance of full loading and fair custom.

Question 22. Do you consider that vessels required for the Indian Mercantile Marine should be built entirely in private ship-yards, or do you recommend the establishment or development of Government Dockyards for this purpose?

I have already indicated my preference for ship-building in Government dockyards, and also my apprehensions as regards the inability of the present Government to appreciate the Indian viewpoint and to further Indian interest.

Question 23. What is your opinion regarding the present condition of the Ship-building and Marine Engine construction industry in India ?

An opinion is hardly worth expressing on this point, as no such industry, worth the name, exists in India, at present.

Question 24. If you consider the situation unsatisfactory, what, in your opinion, are the conditions in India at present which militate against the development of such industries by the people of this country ?

See reply to question 2 above. The absence of adequate iron and steel resources within India herself may be regarded as an additional difficulty in regard to the ship-building industry in India. I think, however, this difficulty is exaggerated. The iron and steel industry is not entirely unknown in India; while possibility of importing parts, until we ourselves make them, is also not fully understood. And this arrangement takes no account of alternatives in materials for ship-building, like wood.

Question 25. Can you suggest any measures to remove or mitigate existing difficulties or disabilities, without having recourse to State aid, and to encourage the people of this country to embark on such industries ?

Special treatment in the customs schedules is the only thing I can think of as likely to promote ship-building in India, apart from the more direct form of public assistance.

Question 26. Are you of opinion that State aid is necessary or desirable to promote the satisfactory development of those industries by the people of this country ?

Yes.

Question 27. If you consider State aid necessary or desirable, what method or methods do you advocate ?

Ship-building subsidies.

Question 28. Do you advocate any legislative measure for the purpose of the satisfactory development of these industries by the people of this country and, if so, what should the legislative measures be ?

Analogous to the legislation I have already indicated above.

Question 29. Are you in favour of the grant of construction bounties to vessels built in Indian ship-yards ?

Yes.

Question 30. Do you advocate that construction bounties should be confined to vessels built of steel only? If so, what, in your opinion, should be the minimum gross registered tonnage of vessels built in Indian ship-yards, which can be considered eligible for a construction bounty?

No. For, I believe, the possibilities of wooden ships, of fairly large size and equipped with internal combustion engines, are not yet properly understood.

Question 31. If you advocate the grant of construction bounties, what rate per ton of gross registered tonnage do you recommend should be given for the hull alone?

I cannot answer this question.

Question 32. If propelling machinery also is built in India, would you advocate a bounty per actual horse power being paid to the propelling machinery builder?

Not necessarily, particularly if the machinery producer has substantial advantages in the customs tariffs of India.

Question 33. In the case of vessels which are to receive ship-building bounties, do you advocate that no materials made outside of India should be used for the construction of the hull and propelling machinery or would you advocate any exceptions such as:—

(i) Stem, stern post, rudder and rudder tiller, rudder post, quadrant, and rudder pintless.

(ii) "A" brackets and tripple screw shaft bearings.

(iii) All stanchions not less than 7 inch diameter.

(iv) All kinds of springs.

(v) Corrugated and plain or flayed boiler furnaces.

(vi) Motor (wheel) spindle or shaft and blades for turbine engines.

(vii) Patented articles or articles of new design made abroad.

(viii) Windlasses, cargo winches, steering engines and gear, anchors and chains, wire ropes, hand bilge pumps, fire pumps, cabin ports, electric apparatus, steam and electric pumps, and ash ejectors.

(ix) Steel plates, angles, forgings and castings (iron or steel).

I accept the principle that ships built in India should preferably be made out of materials produced in India. But I think, in practice, while the industry is yet developing, exception may have to be made, for specialised kinds of machinery, patented articles, and other mechanical devices etc., required as accessories to a wooden ship, that may not be possible to produce immediately in India.

Question 34. If you advocate any exceptions as suggested above, do you recommend the grant of any customs concessions and, if so, what?

The customs concessions to such materials should, however, be governed by considerations of developing such other industries, and not exclusively by a reference to the ship-building industry.

Question 35. What measures do you suggest to prevent the abuse of these concessions?

(a.) Prescription of maximum rates.

(b.) General supervision of building operations to see that no fraud is perpetrated.

(c.) Requirements, under a specific law, of periodical returns and certificates from the owners or those responsible for the ship's construction, giving details and vouching for the *bona fide* fulfil ment of the conditions under which they become entitled to these concessions.

Question 36. What is your opinion regarding the present condition of the Wooden Ship-building industry in India?

Question 37. If you consider the situation unsatisfactory what, in your opinion, are the conditions in India at present which militate against the further development of such industry by the people of this country?

Question 38. Do you suggest any measures to remove or mitigate existing difficulties or disabilities, without having recourse to State aid, and to encourage the people of this country to further develop such industry?

Question 39. Are you of opinion that State aid is necessary or desirable to promote the further development of this industry by the people of this country?

Question 40. If you consider State aid necessary or desirable, what method or methods do you advocate?

Question 41. Do you advocate any legislative measures for the further development of this industry by the people of this country and, if so, what should the legislative measures be?

Question 42. Are you in favour of the grant of construction bounties to wooden ships built in Indian ship-yards?

Question 43. Is any difficulty experienced in effecting the insurance of Indian built woooden ships and, if so, what remedial measures, do you recommend?

Wooden ship-building is not entirely unknown in India. The competition of steam-driven, steel-built ships of to-day is the decisive factor in keeping this industry in the back-ground. I consider that the possibility of a large sized wooden ship, whose advantages are well brought out in his treatise on Merchant Vessels by Dr. Riegel (University of Pensylvania, 1921) have yet to be understood in this country. And I would suggest that this Committee would do well to invite evidence from places where this industry still continues, if not exactly in a flourishing condition, to survive. I know of one such place, namely Cutch Mandvi; and I herewith append the information I have been able to collect in regard to wooden ship-building in that place, for the information of the Committee.

WOODEN SHIP-BUILDING IN CUTCH MANDVI.

"1. The number of ships built in Mandvi in recent years:

After the war, almost nil. During the war-period, especially during the latter half, there was a great boom in the shipping business, and during that period of about two years, nearly fifty new ships were built.

2. The burden carrying capacity:

Maximum–600 Khandies=2400 bags=150 tons.

Minimum–50 Khandies=200 bags=12½."

These ships contain no special accommodation for passengers such as cabins or separate rooms, but if passengers are available, these ships may carry them.

3. The usual routes on which these ships ply are:

(*a*) From Cutch Mandvi to Karachi, Muscat, Persian Gulf ports Basrah.

(*b*) From Cutch Mandvi to Bombay, Zanzibar, Mombassa, Mozambique, East African ports, Madagascar, Nusiba, Majanga, Por Loui, Bera, Kiliman, Chindi etc.

(*c*) From Cutch Mandvi to Bombay, Colombo, Rangoon and Calcutta and intermidiary ports.

4. Freights charged:

In war time there was a very brisk demand, and then the freigh charges were the highest on record; of course, varying according t distance. The charges during war time were approximately as follows:

From Karachi to Basra: Rs. 3 to 8 per bag; Rs. 12 to 32 pe Khandi.

From Bombay to Zanzibar; Rs. 5 to 10 per bag; Rs. 20 to 4 per Khandi.

and other places varying according to distance.

The present rates are *the lowest on record.*

Karachi to Basra: Annas 12 to Re. 1 per bag.

Bombay to Zanzibar: Annas 12 to Re. 1 per bag.

On account of these low rates, the present income of the shipowners is almost nil, and consequently most of the ships are lying idle.

Mode of charging:

Half in advance and the other half after the delivery of goods.

Longest voyage:

From Calcutta to Mozambique on Zanzibar. Quite often.

5. Usual earnings:

After deducting the expenses, the present earnings are very meagre amounting to almost nothing as the pay &c. of the crew have increased during the boom of the war period and they cannot be reduced at present.

6. The cost of building a ship with full equipment;

At present a ship of about four to five hundred khandies would cost about Rs. 25000=Rs. 15,000.

A ship of about 100 khandies would cost about Rs. 5000 (at the present rate of exchange). During the war period, when so many ships were being built, the material as well as labour were very dear, and the cost of that period was nearly double the present amount.

The time taken for building a big ship of 500 khandies would be about 4 to 6 months; while a small ship of about 100 khandies can be built in a couple of months.

7. Motor engines:

As the ships are mainly built for carrying cargo the installation of motor engines would insure their timely arrival. This would be a distinct advantage, but as regards the initial cost and fuel, one cannot say whether it would be profitable or not, as there is no ship here with a motor engine.

Owing to the unusual reductions in freight made by the steam ship companies plying in Indian waters, the wooden shipping industry is almost on the point of being annihilated. After the war, the Port Trust charges of the principal ports like Bombay, Karachi, Rangoon and Calcutta have immensely increased, which fact also tells heavily on the wooden shipping industry.

Again, the cost of building these wooden ships in this place is enhanced owing to the fact that the State charges nearly 7½% customs duties on woods imported from the Malabar ports, this percentage being calculated at the rate of 6 kories per rupee while the present rate is nearly [illegible] kories to one rupee, so that the actual customs Duty on the raw materials of ship-building amounts to over 25%. No more effective specific could have been invented by the State to scientifically stamp out the industry altogether. And the bitter irony of it all is that it is a *'Native State !* where we have no excuse of an alien rule to explain the criminal indifference to the country's industries, unless we consider the character and disposition of the *de facto* rulers as an explanation.

There is no immediate prospect of a revival of this shipping industry unless the State concerned help it by giving special concessions in the form of subsidies etc., as is done by many countries.

As I consider the wooden ship, furnished if necessary, with power driven machinery to ensure regularity, and a fair average of speed, to be more suitable to the requirements of the small scale Indian merchants, at least in the coastal trade, I think, certain measures of preferential treatment may profitably be given to the Indian built wooden ships as against the Indian built steel ship. For, it must not be forgotten that while in the construction of the latter, India will have to depend, for some years at least, on foreign supplies, in that of the former we can ourselves furnish practically all the materials that we require. A grant of special advantage would, therefore, be more profitable to the State as well as the subjects in the case of the wooden ships than in the case of the steel ship. I have no personal experience that will justify my answering question No. 43.

Question 44. Do you consider that any considerable number of the youths of this country are likely to be desirous of following the sea in the capacity of Officers in the Mercantile Marine ?

Yes.

Question 45. If so, should Government take any active steps to provide for—

(*a*) Their training,

(*b*) Future employment, and

(*c*) Facilities for further study when qualifying for Board of Trade certificates in the various grades, or would you leave these to private enterprise in India ?

Yes. Government should take active steps in the matter.

Question 46. Do you advise that cadets for training should proceed direct to sea as apprentices, or should they undergo a preliminary course of instruction in a training ship or training establishment on shore ?

Preliminary instruction in a training ship, which, however, should be equal to a long distance voyage if required, would be preferable.

Question 47. If you are in favour of preliminary training in a training ship or establishment, do you advise that this should be carried out in India, and, if so, do you recommend that the training ships or establishment should be provided or supported by Government ?

I would place Nautical Training on a par with instruction in Engineering or Medicine in present day Universities, and organise the same accordingly, with a leading Government institution to set the standard, if not to be the only model of its kind.

Question 48. If some cadets are also trained in England, do you consider that they should be expected to pay the full fees for such training, or do you advise that Government should assist by establishing a system of scholarships for the purpose ? If the latter, please give your views regarding the form, which these scholarships should take ?

This alternative would only arise if adequate training facilities were not developed in India. I hold strongly to the former, and would not therefore consider the alternative of scolarships in England or elsewhere, though if Indian shipping is developed sooner than Indian ship-building, as is likely, some form of scholarship would have to be adopted.

Question 49. If the training ship or establishment should be in India, should there be one or more, and do you recommend that the maintenance charges of such institutions should be met wholly or partially by the levy of fees ? If not wholly, by what means do you suggest that the maintenance charges should be met ?

There may be two or three such institutions: but the number would be limited by the first rate ports where such institutions would most conveniently be located. Fees may, of course, be charged ; but their oppressive character may be modified by liberal grants of scholarships. Fees should never be intended to pay for the whole of the maintenance charges of such educational institutions, which should be paid for preferably by the Central Government.

Question 50. Do you advocate the establishment of a training ship or nautical college on shore ?

I would prefer a training ship comprising a nautical college.

Question 51. Do you advocate that after undergoing their preliminary training, the boys should serve a period of apprenticeship in steamers of the Mercantile Marine or in a sea-going training ship ?

Preferably in steamers of the mercantile marine.

Question 52. If the former, do you consider shipowners are likely to accept apprentices for training, and if not, do you know what their principal objections are to doing so? Can you suggest any measures to overcome such objections and to encourage ship-owners to accept apprentices?

I have already accepted the principle of admission of apprentices to Indian vessels being made one of the conditions for grant of special benefits. The objections of ship-owners to the relative inefficiency or costliness of apprentices would, therefore, be amply compensated for.

Question 53. If the apprentices are required to pay a premium for their apprenticeship, should Government pay the whole, or any portion of it?

Duly certified candidates passing out of the recognised nautical colleges should not be charged an apprenticeship premium.

Question 56. Have you any views as to the curriculum of study during the period of training as a cadet and as an apprentice?

I cannot make out any curriculum for nautical training; but I would suggest that the business side of shipping should certainly receive attention in drafting the curriculum. The form and nature of shipping documents, their obligations, the law and practice of marine insurance etc., are examples of what I mean by the business side.

Question 66. Do you accept the above or have you any other views as to how these mail contracts should be arranged?

Mail contracts make an important form of State aid to shipping development; and, as such, must be reserved for ships owned by Indians if not also built in India.

Question 67. What other conditions, if any, do you consider it necessary or advisable to introduce in mail contracts in the future and with what object?

Barring the condition in Question 66, preference to Indian vessels, I think the present conditions governing the mail contracts are fairly suitable.

Question 70. If you have advocated direct or indirect State aid or assistance, what method or methods can you suggest for the purpose of raising the funds required? Will you give figures in support of your proposals, including the total sum involved?

The payment of bounties and subsidies would, of course, be a burden, which, in principle ought to be met from the general resources of the State, particularly as represented by the Central Government in order to avoid provincial jealousies. A special tax, like a surcharge on freights earned by foreign vessels doing Indian business, may be found advisable to constitute a definite fund for the provision of these bounties, if necessary.

APPENDIX

ANALYSIS OF INDIA'S FOREIGN TRADE IN 1920-21, 1921-22, 1922-23.

Import.	1920-21 Rs.	1921-22 Rs.	1922-23 Rs.
I.—Food, Drink & Tobacco—			
Fish (excluding canned fish) ...	20,59,532	18,77,064	24,29,949
Fruits and Vegetables	1,67,82,394	1,68,00,317	1,83,57,258
Grains, Pulse, and Flour	5,06,208	9,35,58,903	54,32,031
Liquors	4,21,17,387	3,37,20,051	3,00,93,579
Provisions and Oilman's Stores ...	3,60,96,100	2,70,36,255	2,77,30,379
Spices	1,91,07,887	1,92,59,480	2,44,54,233
Sugar	18,50.29,754	27,50,28,258	15,48.89,968
Tea	40,20,818	55,39,983	45,52,265
Other Food and Drink	2,44,02,651	1,69,67,853	1,93,87,376
Tobacco	2,95,91,226	1,65,05,763	2,25,67,007
Total	35,97,13,957	50,62,93,927	50,98,94,045
II—Raw Materials, and Produce and Articles Mainly Unmanufactured—			
Coal	29,17,974	5,78,01,678	3,08,92,733
Other Non-Metallic Mining quarry produce and the like	1,17,18,793	1,15,19,040	2,62,69,388
Fodder, etc....	1,80,535	80,256	96,798
Gum, Resin and Lac	47,60,950	41,00,398	57,95,251
Hides and Skins (raw)	10,45,863	9,81,734	9,77,183
Metallic Ores and Scrap Iron or Steel for remanufacture	17,55,274	8,67,489	1,25,458
Oils, Vegetables, etc....	8,76,40,493	7,56,14,065	6,89,15,530
Oil Cakes	1,40,587	18,878	10,446
Paper-making Materials	49,91,000	43,67,918	24,25,837
Rubber	3,364	3,037	421
Seeds....	51,49,646	46,73,386	4,54,157
Tallow, Stearine, and Wax	48,98,960	21,52,857	27,21,058
Textiles—Cotton, raw & waste ...	1,69,55,047	3,44,30,736	1,73,41,612
Do. Jute, raw	2,820	2,886	0,206
Do. Silk, raw & waste ...	1,66,50,160	1,35,22,974	1:80,33,645
Do. Wool, raw...	6,50,150	9,11,71[illegible]	13,04,629
Do. Other Materials	9,17,015	8,68,625	5,65,291
Wood and Timber	1,07,57,725	86,33,292	49,18,264
Miscellaneous	52,73,546	58,82,787	58,06,491
Total	17,64,10,393	22,34,06,746	18,46,59,387

III—Articles Wholly or Mainly manufactured—			
Apparel	4,32,11,735	1,28,03,926	1,27,14,290
Arms, Ammunition and Military Stores	63,95,627	70,10,666	62,82,839
Chemicals, Drugs and Medicines ...	5,16,46,700	3,74,56,614	3,92,02,725
Cutlery, Hardware, Implements and Instruments (excluding Electrical Instruments, and Apparatus ...	11,97,34,333	7,87,17,505	6,73,48,356
Dyes and Colours	5,72,41,890	4,49,09,858	4,23,20,363
Electrical Goods and Apparatus ...	4,18,38,639	4,06,34,401	2,14,10,867
Furniture, Cabinetware and manufactures of wood	95,65,258	54,28,986	25,85,555
Glassware and Earthenware ...	4,27,67.209	3,00,29,705	3.37,82,077
Hides and Skins, tanned or dressed, or Leather	1,28,62,099	66,42,567	52,39,343
Machinery of all kinds including belting for machinery	24,08,55,793	35,49,21,092	24,42,83,282
Metals, Iron and Steel and manufactures	31,23,21,086	21,05,99.511	18,36 12,356
Metals other than Iron and Steel and Manufactures	9,34,55,458	5,05,14,863	6,91,87,914
Papers, Pasteboard, and Stationery.	9,12,48,822	3,25,48,789	3,70,41,196
Railway Plant and Rolling Stock ...	14,13,04,961	18,91,06,135	11,05,80,847
Rubber Manufactures	2,52,02.338	1,54,35,372	1,80,19,646
Vehicles (excluding locomotives for Railways)	14,30,28,605	4,41,53,282	3,42,56,501
Textile—Cotton Yarns and Manufactures	1,02,12,00,290	56,93,80,548	70,13,02,032
Textile—Jute Yarns and Manufactures	26,28,784	19.84,191	16,79,300
Textile—Silk Yarns and Manufactures	3,59,33.100	2,98,70,549	3,16,54,472
Textile—Wool Yarns and Manufactures	5,53,00,370	1,22,86,854	1,51,56,436
Textiles—Other Yarns and Fabrics	4,61,75,477	1,07,79,630	1,60,62,820
Miscellaneous...	12,86,80,541	10,54,26,063	10,03,17,028
Total	2,74,45,99,140	1,89,06,41,107	1,79,40,40,545
IV.—Living Animals—			
Horses...	37,81,852	19,98,060	24,53,585
Other living animals	1,33,040	1,43,109	1,29,048
Total	39,14,892	21.41,169	25,82,633
V.—Postal Articles not specified...	7,13,50,029	4,09,80,473	3,47,28,325
Total	3,35,59,88,412	2,66,34,63,422	2,32,59,04,935
Government Stores	11,53,63,710	14,07,76,090	11,71,45,746
GRAND TOTAL ...	3,47,13,52,122	2,80,42,39,521	2,41,30,50,881

EXPORTS.	1920-21 Rs.	1921-22 Rs.	1922-23 Rs.
TOTAL FOREIGN MERCHANDISE			
INDIAN MERCHANDISE—			
I.—FOOD, DRINK & TOBACCO—	18,04,34,866	14,06,34,125	15,16,30,827
Fish (excluding canned fish)	56,02,338	60,35,208	54,25,327
Fruits and Vegetables	60,33,660	63,23,260	68,11,819
Grain, Pulse, and Flour	25.64,94,019	29,98,97,517	42,47,63,223
Liquors	27,527	18,569	49,418
Provisions and Oilman's Stores ...	74,17,680	70,66,738	60,91,640
Spices...	80,31,710	1,00,85,539	1,09,79,949
Sugar	95,47,993	24,86,690	10,48,839
Tea	12,14,97,645	18,22,01,918	21,88,07,526
Cloth, Food and Drink	1,42,99,173	1,39,24,522	1,24,74,230
Tobacco	74,92,272	71,30,790	82,67,812
Total ...	43,67,44,017	53,51,20,746	69,42,19,783
II.—RAW MATERIALS, AND PRODUCE AND ARTICLES MAINLY UNMANUFACTURED			
Coal	1,49,38,810	5,32,320	14.52,131
Other non-metallic quarry products and the like	1,09,10,193	64,91,082	62,35,975
Fodder etc.	1,14,17,925	1,14,59,913	1,26,25,560
Gum, Resin and Lac	7,68,37,384	7,93,67,860	70,37,27,584
Hides and Skins, (raw)	5,24,84,457	5,98,13,988	5,70,60,201
Metallic Ores and Scrap Iron or Steel for remanufacture... ...	2,46,59,364	1,70,24,468	2,26,10,442
Oils, Vegetables, etc. ...	3,48,66,685	2,84,34,462	3,19,81,409
Oil Cakes	1,16,63,362	1,36,56.732	1,72,24,999
Paper-making Materials	23,247	2,556	1,251
Rubber	1,55,13,822	77,16,072	72,50,098
Seeds	1,68,33,47,923	17,40,69,114	27,35,39,162
Tallow, Stearine, and Wax... ...	10,89,296	9,13,304	8,75,505
Textile—Cotton, raw & waste ...	42,19,34,292	54,49,07,520	72,07,18,919
Do. Jute, raw & waste ...	16,36,08,642	14,04,91,597	22,52,86,095
Do. Silk, raw & waste... ...	33 39,786	26,28,546	38,17,258
Do Wool, raw	2,25,71,797	2,54,46,095	4.41,43,267
Do. Other Materials	86,68,394	39,43,896	61,08,264
Wood and Timber	1,23,64,706	58,61,969	24,02,714
Miscellaneous	2,05,41,605	1,76,53,799	2,10,61,898
Total ...	11,07,37,73,690	1,14,14,20,593	1,56,51,22,737
III—ARTICLES WHOLLY OF MAINLY MANUFACTURED—			
Apparel	30,33,472	31,25,[illegible]	37,52,933
Arms, Ammunition and Military Stores	786	191	3,582
Chemicals, Drugs and Medicines ...	3,78,57,067	2,85,82,113	3,07,51,884
Cutlery, Hardware, Implements and Instruments, (excluding Electrical Instruments and Apparatus) ...	10,08,899	9,46,588	9,28,322

Dyes and Colours	1,10,85,663	1,33,19,774	[illegible]
Electrical Goods and Apparatus ...	......	......	......
Furniture, Cabinetware and Manufactures of wood	9,42,640	11,87,876	8,84,713
Glassware and Earthenware ...	2,19,978	2,37,435	3,91,853
Hides and Skins, tanned or dressed or Leather...	3,29,53,345	4,03,36,813	5,16,07,178
Machinery of all kinds, including belting for machinery	35,272	50,991	47,038
Metals, Iron and Steel and manufactures	59,43,793	56,58,533	93,95,890
Metals other than Iron and Steel and manufactures	1,19,02,308	1,28,56,878	1,63,62,350
Paper, Pasteboard, and Stationery.	1,87,739	2,58,816	1,03,188
Railway Plant and Rolling Stock ...	11,34,426	667,793	234,541
Rubber Manufactures	44.441	4,535	9,331
Vehicles (excluding locomotives for Railways)	27,491	35,575	73,015
Textiles—Cotton Yarn and Manufactures	18,27,13,282	15,65,07,166	13,06,21,869
Textiles—Jute Yarns and Manufactures	52,99,46,798	29,99,57,166	40,49,99,381
Textiles—Silk Yarns and Manufactures	5,16,995	2,96,069	2,42,956
Textiles—Wool Yarns and Manufactures	84,42,248	71,31,650	98,41,387
Textiles—Other Yarns and Fabrics.	1,99,186	5,30,475	6,29,599
Miscellaneous	2,92,41,824	3,12,63,963	3,16,73,186
Total ...	85,74,37,643	60,29,55,663	70,46,27,982
IV—LIVING ANIMALS—			
Horses	95,605	95,045	1,10,785
Cattle	20,44,677	16.74,382	8,28,912
Sheep and Goats	10,92,365	12.64,322	11,25,513
Other Living Animals	1,43,775	2,58,652	2,63,334
Total ...	33,76,422	32,92,401	23,28,544
V.—POSTAL ARTICLES	2,67,90,851	3,10,11,484	2,21,68,697
Total ...	2,40,01,22,623	2,31,38,00,887	2,98,84,67,743
Government Stores	9,58,78,686	3,21,51,194	1,74.64,717
GRAND TOTAL ...	2,67,64,36,175	2.48,65,86,206	3,15,75,63,187

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